Monday October 28 1991

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* THE FINANCIAL TIMES LIMITED 1991

World News Pro-Solidarity McDonnell

parties take narrow lead in Poland

Pro-Solidarity parties took a narrow lead in Poland's parliamentary elections, closely followed by post-communist groups, according to computer predictions based on an exit poll. Page 18

Mobutu blames west President Mohutu Sese Seko of Zaire rejected any serious political compromise and hit Out at western countries which, he said, wanted his bead at any price. Page 18

Tip-off to drug dealers A tip-off from inside the US government may have allowed international drug dealers to withdraw millions of dollars from the Bank of Credit and Commerce International days before the arrest of bank employees on money launder-ing charges. Page 4

Communists regroup Soviet Communists formed a new organisation, the Socialist Party of Russian Workers, to fight for the rights of the Communist Party, suspended after August's failed coup.

Israeli soldler injured An Israeli soldier was critically ili after a concrete block was dropped on a passing patrol in the occupied West Bank. Talks game-plan, Page 3; Edi-torial comment, page 16

Wedding guests killed Six people dled when unknown attackers tossed a hand-grenade into a crowded room at in South Africa's Natal province. All-party plea, Page 4

Warehouses plundered Some 2,000 Albanians stormed a warehouse packed with Western aid in the northern town of Shkoder, the second such raid in a week. Newspapers blamed long distribution

Greek minister sacked Greek premier Constantine net minister Miltiades Evert, vice reform, after a reported dispute on the handling of foreign policy. Page 2

French jobless rises French unemployment, an increasing source of anxiety to the socialist government ahead of next spring's regional elections, surged in September to a record 2.77m. Page 2

Action sought on fish EC governments will be asked in Luxembourg today to end more than a year of delay on measures needed urgently to conserve stocks of fish in Community waters, Page 2

Setback over temple The religious organisation vowing to build a lemple at the site of a mosque at Avodhya in northern India has been thrown into confusion by a court ruling. Page 4

Scrolls access widened The Israeli custodians of the efforts to limit access to the biblical documents, ending a scholarly monopoly that existed for nearly half a century.

Colombian elections Colombians voted under heavy guard for a new Congress and provincial governors in elections expected to end the dominance of the Liberal and Conservative parties which have ruled the country for more

Australia, England win Australia and England meet at Twickenham in the World Cup Rugby final on Saturday. defeated New Zealand 16-6 in Ouhlin and England beat Scot land 9-6 in Edinhurgh.

Business Summary

seeks orders for rival to **Boeing 747**

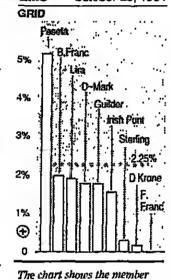
McDonnell Douglas, US aerospace group, is to take orders for its proposed MD-12 wide-bodied aircraft, a rival

to the Boeing 747 jumbo jet.

The announcement does not mean that the financially stretched company has secured funds to build the aircraft, but the fact that the company's board is prepared to give its civil aviation subsidiary the go-ahead to seek orders sugsts its negotiations to raise the cash are on track. Page 18

EUROPEAN Monetary System: The Spanish peseta extended its lead at the top of the ERM grid after the Bank of Spain reaffirmed in its money market operations that interest rates would be unchanged. The French franc was at the bottom of the system after a week of protest against the government. Currencies, Page 29; Economics Notebook,

EMS October 25, 1991



currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the syspeseta operate with 6 per cent

NEWS Corporation, Rupert Murdoch's international media group, is considering plans to raise \$800m-\$900m in new money before the end of the year. Proposals have received favourable response from New York banks. Page 18

ROLLS-ROYCE and British Aerospace, which form the core of the British aerospace industry, have cut sharply repayments of UK government launch aid. Page 8. BAe cash call hopes dwindle, Page 19

BRITISH RAIL, UK rail operator, is planning to cut the cosl of acquiring a £100m (\$171m) fleet of freight trains, by leasing some of the trains from French banks rather than buy-

ing them outright. Page 18 UK government ministers are this week expected to complete negotiations on next year's public spending totals without recourse to adjudication. Edito-

rial Comment, Page 16 HOESCH, German steel and engineering company subject to a bostile bld by Fried Krupp. of its board. Page 21

MATRA, French space, telecommunications and transport group, saw first balf profits fall steeply. Operating profits were more than halved year on year to FFr317m (\$55m).

HTV. UK independent regional television contractor, is to impose a pay freeze and further redundancies after its successful £20.53m (\$35m) bid to retain Its franchise. Page 20; Observer, Page 16; TV anction

Monday Page .

Money Markets

British PM plans parliamentary debate on European integration | EC attacks

The strategy, designed to assert his authority over the party, raises the possibility of a public clash with Mrs Margaret Thatcher, his predecessor, about his intention to sign a deal on economic and monetary union (Emu).

mer party chairman, yesterday added bis influence to lbe small but vocal group of Con-servative MPs who believe Mr Major should not agree to a

On the Record programme, Mr Tebblt said a single currency would reduce the role of the British chancellor of the exchequer to that of "the treasurer a final decision on participa-

of a rate-capped local authority". He hinted strongly that if a deal was reached be would back calls for a referendum on the issue.

tion in the pre-Maastricht Ministers, however, voiced confidence that the debate

transfer of sovereignty to Brus-

tion, broadly met British concerns. It was now clear that Mr Major would not be faced at the summit with attempts to

"impose" a single currency.
The compromise, to be pub lished tonight in The Hague, would undercut the efforts of the right to argue against such a deal.

"There will be sound and fury but very little substance from the anti-federalists", one minister said. Another pointed

out that a confrontation before Maastricht would diminish the influence of Mrs Thatcher and ber allies next spring in the immediate run up to the general election. Mr Douglas Hurd, mean-

while played down sugges-tions that recent clashes between London and Brussels signalled a breakdown in the separate discussions on politi-

vision of Mr Jacques Delors. the European Commission president, was not shared by Britain. Nor was there any prospect at Maastricht of an agreement on the "final shape"

of Europe. He told BBC radio, bowever, Britain still saw its interest as establishing enough common ground with other European govarnments to agree on "another step forward" for the Community. Mr Hurd said an accord could be delayed if other countries insisted at Maastricht on a federal structure for Europe, but that was

not his government's aim.

Mr Tabbit said Britain should have "nothing to do" with arrangements which would lead to the creation of a single currence election than wind lean to the creation of a single currency, allowing those countries which wanted that to do so outside the Treaty of Rome. Ha agreed with an ear-lier comment by Mrs Thatcher that an economic and mone-

tary union "would tear the heart out of our parliament".

The former Conservative party chairman said be would 'make plain" his opposition at "make plain" his opposition at Westminster, but was careful to leave open the question of whether he would actually vote against the government.

The exact timing of the pre-Mastricht debate has yet to be decided, but it is likely to follow a series of bilateral meetings between Mr Major and other Kurppean leaders.

other European leaders.
On Friday he will meet
Chancellor Helmut Kohl in
Bonn, and Downing Street is
arranging similar talks with President François Mitterrand of France, Mr Guilio Andreotti. the Italian prime minister, and Mr Charles Haughey, the Irish prime minister.

Parties prepare to shoot it out, Page 8 Government rejects poll tax

Japan's ruling party picks new leader

Yugoslav demand for surrender of Dubrovnik

By Judy Dempsey, East **Europe Correspondent**

THE European Community yesterday sharply criticised a Yugoslav federal army ultima-tum demanding that Croatian forces defending the besieged medieval city of Dobrovnik hand over all their weapons and leave the region.

"The demands are an illegal act clearly aimed at the seizure of an indisputably Cro-atian city," said the EC. The statement was issued from The Hague by the Dutch Foreign Ministry, host to the EC-sponsored peace conference on

As the deadline for the sur-render passed last night local Croats said they were expect-ing an all-ont attack on the city as part of a plan by the Serb-dominated federal army and Serbia to create a greater

There were even rumours that the army was considering annexing Dubrovnik to Monte-

negro, a staunch ally of Serbia. Journalists near Dubrovnik, however, thought an all-out assault was unlikely and that the federal army would sit it

out for the time being. The ultimatum, issued at the weekend by General Pavle Strugar, the federal army com-mander in Dubrovnik whose forces have been besieging the city for three weeks, did not say what action his troops would take if Croatian forces

failed to meet the deadline. In a tone reflecting the EC's frustration at its inability to implement a ceasefire, and the rederal army's flouting of any agreed ceasefire, it said: 'Ceasefire arrangements have been violated by all parties. But recent JNA [the Yugoslav federal army] attacks are out of all preportion to any non-

of all proportion to any non-compliance by Croatia." EC foreign ministers will today meet in Brussels to discuss the Yugoslav crisis, while Lord Carrington, the former UK foreign secretary and chairman of the peace conference on Yngoslavia, will hold talks in New York with UN

More than 6,000 inhabitants of Dubrovnik have asked to be evacuated since Friday when the EC brokered a ceasefire between the federal army and Croatian forces. Meanwhile, Croatian radin yesterday reported widespread fighting continued in the cities of Vukovar, Vinkovci, and Osijek.

Background, Page 4

Major to face critics on Emu

By Phillp Stephens, Political Editor, in London

MR JOHN MAJOR, the British prime minister, plans to con-front rightwing critics in the ruling Conservative party hy staging a two-day parliamen-tary debate on European inte-gration aheed of the Maas-tricht summit in December.

Mr Norman Tehhit, the for-

single European currency. Speaking on BBC television's

MR KIICHI Miyazawa is to be

the next prime minister of Japan following his election

yesterday as leader of the rul-ing Liberal Democratic Party

Mr Miyazawa, 72, who will be formally installed as party president tomorrow and as

prime minister next week, is expected to have more influ-

ence over policy than Mr Tosh-

lki Kaifu, the outgoing prime

minister, who lacked the sup-port of a major party faction. The new leader bas a substan-

tial faction of his own, and broad experience in economic

and foreign policy making.

After his selection was announced, Mr Miyazawa bowed in gratitude to his fellow LDP members, and then

walked on to a stage, where Mr Kaifu led the room in a cere-

monial shout of "banzai, ban-zai, banzai" to ensure the

LDP's longevity.
"I want to solve the prob-

lems that most trouble the Jap-anese people," Mr Miyazawa said. He is aware that the

dumping of the popular Mr

Kaifu has stirred anger among

at least a few Japanese, who

are dismayed that obscure

deals done in LDP backrooms have again determined the

Mr Miyazawa received 285 votes from the 395 LDP mem-

bers of parliament and from

country's leadership.

Observer, page 16 Continued on Page 18

Close political allies of Mrs
Thatcher said Mr Tehhit's
views echoed her own. They
expected the former prime
minister to set out ber opposi-

would damonstrate "overwhelming" support within the Tory party for Mr Major. And one said last night: "He wants agreements fon economic and on political union] which keep Britain in the mainstream. But there will be no wholesale

Downing Street Indicated that the latest Dutch proposals for a treaty on Emu, which reserve to a future parliament

The foreign secretary stressed that the "centralist"

Kiichi Miyazawa acknowledges the applause of Liberal Democratic Party members after his election yesterday

White House bids to regain initiative on US economy

By Llonel Barber in Washington

THE US economy grew in the third quarter hy at least 2.5 to 3 per cent, according to a forecast yesterday by Mr Nicbolas Brady, US treasury secretary. Mr Brady's informed esti-

mate signals the start of a White House counter-offensive on the economy, with the administration using tomor-row's third-quarter GNP figures to dampen expectations of a tax-cutting "growtb

ahead of schedule, but Presistung by opinion polls showing a decline in his popularity and performance of the economy Slow economic growth has set off a "bidding war" among

package".
It is unusual for cabinet officials to reveal economic data dent George Busb has been re-election prospects directly resulting from the sluggisb

Congressional Democrats and Republicans, each promoting

tax cuts for the middle class.

which they argue would belp

to jump-start the economy.
Mr Tom Foley, House

speaker, joined fellow Democrats yesterday in supporting calls for higher taxes on the wealthiest Americans to pay for middle class tax cuts. The possible exchange would be a partial reduction in the capital gains tax, a policy being pushed by President Bush.

Mr Brady, however, has emerged as the leading advocate of a "wait-and-see" approach and a strong opponent of endorsing tax cuts that would result in the dismantling of the accord reached with Congress last year to reduce the budget deficit.

Although Mr Brady voiced his support for a capital gains tax cut, be declared his opposi tion to any proposals which would either raise taxes or hreak the budget agreement.

Mr Brady said moves to disturb the hudget agreement would create uncertainty in the financial markets, leading to higher interest and mort-

gage rates. He also quoted Mr Leon Panetta, Democrat chair-

FT SURVEYS THIS WEEK

man of the House budgel committee, saying tax cuts for the middle class were good sbort-lerm politics but bad

Mr Brady also sharply attacked the compromise on bank reform agreed last week among House leaders. A new version, pushed by the House energy and commerce com tee, would allow banks into the securities husiness, but would create tough "firewalls" between the two activities. Although the treasury secre

tary did not advocate a presidential veto of the legislation, he said it was a "step back", undermining efforts to create a more efficient and competitive banking industry.

Mr Brady also raised the

prospect of more tax-payers' money being needed to bail out US banks. Last week, the Federal Deposit Insurance Corporation increased its forecast the number of bank failures in 1992, tripling its expected sportfall next year to \$9.6bn.

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RISING STARS

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Germany: One year on, the high hopes have flaggad (See separate section)

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in the making. Suffolk : A quiat backwatar Iransformed. FRIDAY: irelend: End of a promise-filled era.

E TODAY:

Yeltsin outlines reforms today

By John Lloyd in Moscow

MR Boris Yeltsin, the Russian president, will today announce a harsh package of economic reforms - including price rises, cuts in the state hudget and efforts to end monopolies - as his advisers call for a "Russia first" economic policy which would abandon attempts to co-ordinate reforms across ths 12 states of the Soviet

Mr Yeltsin will speak to an extraordi-nary session of the Russian parliament as senior officials from the Group of Seven advanced industrial countries meet leaders of the Soviet republics to determine whether or not they can co-ordinate assistance to the Soviet Union through the remaining - hut fast fading - central

HOTS ring out, shatter-ing the Sunday silence in Herceg Novi on Montene-

gro's border with Croatia. The

beautiful little town lies in a

snug hay on the Adriatic,

which even in the middle of

autumn is warm and crystal

The shots celebrate a mar-

riage. None of the guests

flinches at the sound. Montene-

grins are proud of their war-

Federal army reservists - mostly Montene-grins - pack the town's cafes, drinking beer and loza, Monte-

beantiful woman strides by in fatigues, carrying a pistol.

opportunity to go the front, which begins just a few miles away at the Croatian frontier,

where the army has razed most

houses and other buildings to

The forested hillsides have been burned out. The few trees

which remain will soon fall.

"When the army took the airport, which was only defended by four Croats, the

reservists threw their biggest

ever party when they broke

into the duty-free shop. The

cognac and whisky flowed," said a Belgrade journalist.

a town just south of Dubrov-nik, Croatia's exquisite resort.

Cavtat still stands, in stark

contrast to the rubble of all

other villages leading to Dub-

"The army uses Cavtat as a

The army has spared Cavtat,

their trunks ringed by fire,

The men eagerly await the

rior tradition

the ground.

Mr Grigory Yavlinsky, economic over-lord of the Union authorities, said G7 officials had come "to see for themselves what is happening here, to feel how serious our intentions are and to ascertain what kind of support we need.
"I hope this will be a very direct and

honest dialogue, otherwise it will be point-less," he said. However, pressure from within Russia is growing to cut economic ties with other republics, which are seen as impoverish-

ing a Russia whose energy and other resources are sold to the other republics at hugely subsidised prices.

Mr Egor Gaidar, a leading radical economist and the man tipped to head economic policy in the next Russian cabinet, said on

Montenegro looks for revenge

A Serbian villager loads a mortar during a battle with

Croat forces near the town of Vinkovci, in east Croatia

Laura Silber on how Serbia's ally sees federal attacks on Croatia

Saturday that "if the Russian government does not take responsibility and initiative for its own reform, then the rapid fall in production will continue.

Mr Gaidar said that the price liberalisation expected to be announced by Mr Yeltsin would send prices up by 100 per cent in the first month. But he supported the need for free prices.

He also criticised the law on wage indexation, passed by the Russian parliament last Thursday, which links the incomes of pensioners and the low-paid to rises in the prices of commodities and other essential products and services.

Mr Gaidar said it would bring about hyperinflation and delay economic stabllisation for two years.

assault around Dubrovník has

saved tham. They are con-vinced that the Croat govern-

They tell of the horrors of

the second world war, when the Ustashe, pro-Nazi Croats, killed hundreds of thousands

of Serbs, Jews and gipsies. It is as if 50 years have not passed.

and they are eager to avenge

"The west does not under-stand. Cities can be rebuilt hut

people cannot be brought back to life," says one angry man.

population as a hostile, plun-dering force. Reservists have

looted televisions, cars and

clothing. But in Herceg Novi,

the people rejoice in the army presence, cheering and shoot-

ing whan convoys drive

The federal army has repeat

edly accused the west of suc-cumbing to Croat propaganda. Army chiefs deny that their

forces have attacked Croatia,

hut are simply responding to

The army and the govern-ments of Serbia and Montene-

gro claim this is not a war of

They justify their attacks hy saying they must protect the

small Serb-minority in Dalma-

Dubrovnik, known as the Pearl

of the Adriatic, someone has added the epithet "Serbian" in front of Dubrovnik on the town

sign - a mark of Greater Ser-bian consciousness.

However, at the outskirts of

territorial expansion.

through the town.

provocations.

In Cavtat the army is regarded by the local Croat

ment is fascist.

Sharp cut in Soviet defence orders

By John Lloyd

THE Soviet military industrial complex, the country's largest and most technically advanced sector, will receive virtually no orders from the military next

Dr Andrei Kokoshin, deputy head of the USA-Canada Institute and an expert on military conversion, said in an inter-view that the military had to use all of its hudget to feed, clothe and house their men. The economic crisis is forc-ing desperate measures on

once stable institutions, which point to a jump in the still-low levels of unemployment. Recent defence orders had

been "substantially cut" and more than 1m skilled workers in the sector were expected to be made redundant before the year-end, Dr Kokoshin said.

A delegation of US industri-alista, led by Mr Donald Attwood, the US deputy defence secretary, will be in Moscow this week for talks with the Soviet military on the possibility of collaboration on conversion. US and other investors have studied conversion plans prepared hy Soviet plants, but so far without any concrete projects being agreed. "We need several hundred million dollars to be committed

to this sector to help the best enterprises to survive," said Dr Kokoshin. "But political and government support from abroad is badly lacking,"

The Soviet defence industry is estimated to account for as

much as 60 per cent of total industrial production, though much of that is for civilian use. The theme of military co-operation with the west was underscored by Colonel Vitaly Shiykov, deputy head of the Russian parliamentary defence committee, Col Shiykov called for co-operation between the US and the USSR on the creation of a global anti-missile defence system.

 Unemployment in the Soviet Union is forecast to rise as high as 20m-25m next year if economic agreements are not rapidly made hetween enterprises and republics. Mr Alexander Troshin, the acting head of the Soviet Economics Minis-try, said GNP could fall between 5-14 per cent in 1992.

IG Metall warns of tough wages round

By Christopher Psrkes in Bonn

GERMAN steelworkers warned at the weekend of a "rough and tough" wages round this winter as Mr Jürgen Möllemann, economics minister, said settle-ments of more than 5 per cent could not be justified.

Mr Lorenz Bruckhues, leadnegotiator for 135,000 lG Metall union memhers employed in the iron and steel industry of North Rhine-Westphalia, Lower Saxony and Bremen, said his claim for a 10.5 per cent increase plus a rise of 1.1 per cent in the basic wage was legitimate.

The cost of living was expec-ted to rise 4.5 per cent next year, and productivity in the iron and steel industry by 2.5 per cent. His members also had to reckon with the hurden of increasing direct and indirect taxation.

He claimed thet employers had benefited from a "profits explosion" - although many forecasts suggest further down-ward pressure on sales and prices next year. The steel employers' negotiators said the claim was "light years away" from wbat the industry could afford

Mr Möllemann, who said German pay had increased at more than double the rate of company profits in the past 10 years, said at the weekend he wanted to see "a four in front of the decimal point" in this

winter's settlements.
His intervention earned him warnings from unions, and even from coalition party poli-ticians, that he would be well advised to keep out of the IG Metall presented its claim

to employers last week, as OTV public service union members voted to apply for a two-figure increase, and banking employees hid for 12.5 per

Government, employers, the Bundesbank and leading economic institutes have all warned in recent weeks against the danger of a wage and prices spiral as economic growth in the west of the country slows down and the costs of financing the unification of the country increase

French jobless figures

By Ian Davidson in Paris

rise by 10.9% in year

FRENCH unemployment, an increasing source of anxiety to the socialist government ahead of next spring's regional elec-tions, surged in September to a record 2.77m, the Lahour Ministry reported.

The figure represents a 1 per cent increase on the August level and is 10.9 per cent – or 240,000 – higher than a year ago. The announcement reinforces an economic assessment by the National Statistical Institute (Insee), which reports that second-quarter indications of a pick-up in economic growth have fizzled out. The institute said the unemployment rate, now 9.6 per cent, could reach 10 per cent by the end of the year.

The government has ear-marked FFr7.5hn (£750m) in extra job-promotion funds in the hope of stemming unemployment over the next two years. The money will be used to pay social security costs of employing young people with-out qualifications and to provide tax relief for those who employ home helps.
At the same time, however,

the government is set to take a harder look at the published joblesa unemployment statistics, on the grounds that the figures are undountedly inflated by a significant num-her who do not qualify as unemployed under International Labour Office criteria. According to an internal government report, some

400,000 would be disqualified under the ILO criteria, of which about 294,000 are not genuinely looking for work - either because they have given up the attempt for reasons of age, or because they are handicapped for health or family reasons.

Overall economic growth in France this year is likely to be no more than 1.5 per cent, the

NEWS IN BRIEF

Brittan's powers extended

By David Buchan in Brussels

SIR Leon Brittan, the EC competition commissioner, has had extended until the end of this year his power to handle Brussels' investigations of corporate mergers np to the point at which they come before the full EC executive for final deci-

The decision, largely taken hy Mr Jacques Delors, the Commission president, means that, for the time being at least, Mr Martin Bangemann, the industry commissioner, has lost his battle to be more closely involved in merger vettings of Pressels. ting, in the wake of Brussels' controversial hlocking of a Franco-Italian hld for de Havilland, the Canadian aircraft

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JOAN I

EC urged to end delay on fishing conservation

European Community govern-ments will be asked to end more than a year of delay on measures needed urgently to conserve the stocks of fish in Community waters, when min-isters responsible for fishing meet in Luxembourg today, writes David Buchan in Brus-

The European Commission ls seeking action on a variety of measures to end over-fishing practices which catch too many young fish These include increasing the size, and changing the shape, of mesh in trawler

Italian bank governor hits at budget failings

Mr Carlo Azeglio Ciampi, governor of the Bank of Italy, made an ontspoken attack over the weekend on the inad-equacy of the 1992 hndget, writes Robert Graham in

He also warned that Italy risked "missing the train" if urgent action was not taken to reduce the country's public sector deficit and bring inflation of over 6 per cent into line with that of other EC member

The lack of sympathy for their countrymen up the coastline in Croatia is striking. They appear not to care about the

PUBLIC NOTICES

showcase to prove they are not the savages they really are,"

said the jonrnalist, who

Herceg Novi, fear has ebbed.

Back across the border in

refused to give his name.





efensive war.

middle-aged woman.

mass destruction and deaths in Croatia, in the belief Montene-

gro and Serbia are fighting a

weeks ago, hut now the army

has stopped the Croats," said a

Novi believe the recent army

The inhabitants of Herceg

"We were terrifled a few

EXPRESSIONS OF INTEREST SOUGHT

FIRST STATE COMPUTING

A Business Unit of the Commercial Services Group The Government of New South Wales, Australia

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- The Changing UK Market

LONDON 2 & 3 December, 1991

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Speakers include:

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Mr Peter Griffiths The Guy's and Lewisham NHS Trust

Dr Jeremy Lee-Potter **British Medical Association**

Mr Philip Hunt National Association of Health Authorities

Mr David Ashdown

Mr Patrick Smith Norwich Union Healthcare Ltd

Mr David Bowden Merrett Health Risk Management Limited

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Europe starts to be sold on cross-border retailing John Thornhill looks at pressures that are forcing

some companies to expand into foreign markets



niture in Italy. The British THE group sources fabrics in Hun-MARKET gary and sells frocks in the

US with backing from its Japa-nese minority shareholder.

The interoationalisation of retailing is a reality, although it has widely been assumed that such examples are the exception rather than the rule. However, a new report* on the subject by Corporate Intel-ligence Group, a retail research consultancy, shows that a surprisingly high level of cross-border retailing activity already exists in Europe and that the phenomenon is grow-

IKEA is a Swedish retailer which

sells Polish fur-

Laura Ashley

ing rapidly.

The study suggests a variety of pressures have pushed European retailers into expanding shroad, while the deregulation of markets in the run-up to 1992 has made it easier for them to do so.

"It is this congruence of the necessity or desire to operate outside the home market with the ability to do so which defines the modern, post-1980 phase of internationalisation in retailing," the report says.
In total, the report identifies

more than 1,000 examples of European retailers operating outside their domestic markets, although there is an element of double-counting in this figure as a company with shops in five different countries will be treated as five separate examples.
Nevertheless, CIG says about

311 European retail companies have international operations: France accounting for 95 of them, the UK 71, and Germany

Although cross-border retailing is nothing new - Woolworth, the US variety store chain, opened in the UK as long ago as 1905 - CIG sug-

gests it is an accelerating Saturated home markets. planning restrictions, rising costs and unfavourable demographic and economic changes have led many European retailers to seek opportunities outside their domestic markets.

The psychology of the single

market programme has also played a significant role - as the concept of the European Economic Area may in future years.

However, much of this crossborder retail expansion has simply been directed into adjacent markets. The Benelux countries have seen a great dif-fusion of retailing activity, while many French retailers have expanded into Spain and Swedish companies have spread into Norway. Yet some adventurous spirits

have looked further afield - Carrefour, the French retailing group, has recently opened its third hypermarket in Taiwan. And the horizons of Europe's retail managers have been drastically hroadened because of the opportunities of eastern Europe. The relatively underdeveloped wholesaling and retailing networks in the region have thrown up huge possibilities and many German groups are investing heavily in

The US has historically been an active hunting ground for European retailers, which have accounted for the vast bulk of foreign direct investment in the US retail trade. Between 1980 and 1988 the value of total foreign investment grew from \$3.65bn to \$14.77bn (£8.6bn) with UK retailers alone accounting for almost 60 per

Marks and Spencer was one of the more high-profile Euro-pean companies to enter the US market through its acquisition of Brooks Brothers and the Kings supermarket chain, But other big European retailers, such as the Dutch Ahold and Vendex companies and the German Tengelmann and Otto Versand groups, have also built up sizeable US businesses in the food retailing and mail order markets.

But in the grand scheme of things the scale of interna-tional retailing still appears limited. It is probably wrong to believe the European retailing scene will soon become homo-

geneous.

Although many High Streets
throughout Europe hoast a
Benetton and a Body Shop there remains a multiplicity of there remains a multiplicity of national and even regional differences. Only in the rapidly expanding Spanish retail market – which is largely heing shaped by more than 100 foreign retailers – does the proportion of total retail sales won by non-nationals exceed 5 per cent.

And although international retailing has become more fre-quent, it is difficult to tell how successful it has been.

Operating retail ontlets in foreign markets certainly. requires great flexibility and commitment and would appear to be far easier to get wrong than right, as the sad history of many British retailers in the US market proves. The method of market entry

often proves crucial, whether it is hy way of joint venture, franchising, licensing or ontright acquisition.

It frequently appears better to learn about a new market gradually and build the busi-

ness from small beginnings than to try to win a great chunk at one hite. In this respect it is perhaps instructive to contrast Marks and Spencer's increasingly attractive organic growth prospects in mainland Europe with its relatively unsuccessful acquisitive expansion in North Amer-

Cross-border retailing is clearly a difficult game to win but one that increasing numbers of companies are trying to Cross-border retailing in

Europe, Corporate Intelligence Research Publications, 51-Doughty Street, London, WCIN

The Financial Times (Emope) Lad.

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ISRAELI ministers, meeting in cabinet yesterday for the last time before Wednesday's Mid-dle East peace conference, relt-erated their determination not to concede the ker Arab demand of "land for peace", confident that their tough stance is in step with public

ONDAY OCTOBER 4

Of News IN ER

powers -

extended

By David Buches

Franco-Italian bid for i

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The European Come is seeking artine e variety of measure to over-fishing practice to the size, and charge the size, and charge nets.

Italian bank govern hits at budger falle

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Tens of thousands of Israelis gathered in Tel Aviv on Satur-day night to voice support for the conference; in one of the higgest demonstrations organised by peace groups who nor-mally oppose Prime Minister Yltzhak Shamir and his Likud

party.
The groups advocated ceding the occupied territories in exchange for peace, but an ambiguous note crept in. Mr A.B. Yehoshua, the author and veteran dove. said: "Today I am sending you a warm greet-ing, Mr Shamir. Go in peace

ing, Mr Shamir, Go in peace and bring peace... in your way, with your tricks, the authority is all yours. But bring peace now."

He did not mean to endorse Mr Shamir's stubborn refusal to cede certifory. But his words echood a mood among many israelis, including Likud opponents, that israel is best represented by a hardliner like Mr Shamir when it comes to nero-Shamir when it comes to negotiations in which the country is likely to come under great



Opinion polls have shown an overwhelming majority in favour of the Madrid conference. But they also show scep-ricism about the outcome and

demand to give up territory. Another demonstration, this time by government support-ers, has been called for today

Polls are not available on the

Palestinian side, but grudging support for the Palestine Liberation Organisation's decision to attend the conference, despite Israel's tough pre-con-

After 24 years of occupation, a sullen resignation that the dream of a Palestinian state is simply not attainable in the short term has set in, replaced route is to take the limited

autonomy that is on offer and hope to build on it.

"We can't jump to the top of the ladder," said a young Jeru-salem travel agent, "We have to start climbing from the bot-

tom rungs."
So far the peace talks have so far the pears talks have not generated a momentum in Israeli public opinion like the wave of enthusiasm unleashed by the late President Anwar Sadat's visit to Jerusalem in 1977, which carried through to

the Israeli-Egyptian peace accords of 1979.

But the sight of US President George Bush and his Soviet counterpart Mikhail Gorbachev bringing the Arabs to the negotiating table and raising the present of real peace might prospect of real peace might entice a dubious Israeli public into a more decisively concessionary mood, challenging Mr Shamir's intransigence.

Both sides fear that failure

would allow extremists to seek to fill the vacuum. Evidence of such extremism is easily

"I don't want peace, I want war," said Sami, a 21-year-old from the village of Silwan. "My friends and I are with the Islamic movement. We are against the PLO. The peace conference is cooked against us I can smell lt.

want to fight the The announcement of Mr

Jordan calls on ex-PLO adviser

JORDAN has included Mr Walid Khaltdi, the distin-guished Palestinian historian, in its delegation to the Madrid peace conference, in an apparent attempt to circumvent Israel's refusal to deal with Palestinians from the diaspora or Jerusalem.

Mr Khalidi, who was born in Jerusalem, is a professor in the US and for a time in the 1970s was a close adviser to Mr Yaswas a close anviser to air res-sir Arafat, chairman of the Pal-estine Liberation Organisation. Israel is certain to take a dim view of Prof Khalidi's pres-ence in the joint Jordanian-Pal-estinian delegation to the con-ference, as he is both a prominent Palestinian from the diaspora and a former Jerusalem resident. Israel insists It will negotiate

only with Palestinians from the West Bank and Gaza Strip. It will not sit down with Palestinian representatives from Jerusalem, nor those associ-

Jerusalem, nor those associated with the PLO.

Mr James Baker, US secretary of state, voiced concern at the weekend over statements by Palestinian representatives in the joint delegation identifying themselves closely with the PLO. He called on parties to the conference to "act and speak responsibly".

ence in dealing with Israel. Egypt is the only Arab country to have made peace with the Jewish state. In Amman, a senior PLO official warned that if Israel did not halt Jewish settlements in the West Bank and Gaza Strip, occupied in the 1967 war, Polecticians wight walk out of

Khalidi's presence in the joint delegation coincided with a

continuing flurry of Arab con-

sultations in preparation for Wednesday's opening session

of the conference.

In Cairo, Palestinian representatives of the joint delegation and an advisory group being sent to Madrid met Presi-

dent Hosni Mubarak. Mrs Hanan Ashrawi, a Pales-tinian spokeswoman, said after

the meeting that Egypt's assis-tance in negotiations would be belpful in view of its experi-

Palestinians might walk out of the Madrid talks.

● Three Palestinians convicted of security offences were barred from leaving Israel yesterday to attend the Peace talks as advisers, Renter

reports from Jerusalem.
Israel has allowed other Palestinians convicted of security offences to go to Madrid, but security officials said the three prevented from leaving had been convicted of more serious

US game-plan for peace talks under wraps

THE Middle East peace conference owes its existence principally to principally to the US. Since the end of the Gulf war last March Mr James Baker. US secretary of state, has flat-tered, bullied and finally fina-gled the Israelis and Arabs into direct negotiations on a regional settlement. Without

his prodigious effort it is hard to see how the parties would have agreed to attend the This catalytic role under-lines how the US has become the pre-eminent power in the Middle East. Yet with so much energy focused on bringing the parties to the negotiating table, an inevitable question arises: do the Americans have a game-pian which will overcome the hitches as negotiations get

This is the best-kept secret In Washington. Lacking a clear answer, some critics have spec-ulated that President George Bush has a more limited goal In mind. Having achieved a peace conference, which many originally dismissed as impossible, Mr Bush may simply tread water and proclaim another foreign policy success in the run-up to the November 1992 election.

The temptation for the administration to sit back and take a breather is understandable, since the road to the Madrid conference was bumpier

Mr Baker made eight gruel-ling trips to the Middle East this year, finally overcoming long-standing gaps between Arab insistence on an international conference and Israeli calls for direct negotiations; between Palestinian emphasis on the involvement of the Palestine Liberation Organisation and Israeli demands for a Jordanian-Palestinian delega-

tion.

The peace conference will unfold in three stages. The plenary session, which convenes in Madrid this week, will be followed by hilateral talks between Israel and each of its Arab neighbours. Soon after that, multilateral talks will open on stage three: a confer-cuce on regional issues such as water rights, arms control, eco-nomic development and the

The Madrid conference is largely ceremonial, although the various speeches will be watched carefully, especially those by President Bush and Soviet President Mikhail Gorbachev as co-sponsors. Mr Bush's planned meeting with Mr Yitzhak Shamir, the Israeli prime minister, could also indi-cate whether recent US-israeli antagonism bas jeopardised

basic trust. The format of the talks represents a new order of priori-ties for the US. In the first 18 months of the administration, Mr Baker emphasised the pri-macy of the Palestinian issue, attributing near magical prop-erties to an Israeli-Palestinian dialogue as a catalyst for

In effect the US has accepted Mr Shamir's argument that a fresh effort to resolve the Palestinian problem must be linked to progress in the talks between Israel and the Arah

The multilateral negotiations on regional issues underline the point: Arab participation,

THE US will continue to act as an honest hroker in Mid-dle East peace talks, Mr James Baker, US secretary of state, pledged yesterday, writes Lionel Barber.

Mr Baker made clear in a television interview that the US had no hineprint for peace, hnt would rely inl-tially on a dynamic emerg-ing in hilateral talks between Israel and its Arab neighbours. He said the US would do whatever it could to make sure the partles took steps to reach a compre-bensive settlement.

Including a reluctant Syria, would be a useful means of reassuring Israel that peace talks are not merely designed to force the Jewish state to cede the territory seized during the 1967 Arab-Israeli war.

Mr Baker has sought, so far nnsuccessfully, to huild hridges between stages two and three of the talks, using "confidence-huilding" measures as an incentive to encourage the parties to offer concessions in their hilateral negotiations.

Earlier this year he suggested the Arab states consider lifting the economic boycott against Israel in return for the Shamir government halting settlements in the occupied territories of the West Bank and Gaza.

Mr Shamir quickly rejected the idea on the grounds that an Arab wrong was being exchanged for an historic Jew-ish right to settle the territories. The cost was a bumiliat-ing political defeat, after the Israell leader pressed his request in Washington for \$70hn (£5.8hn) of housing loan guarantees to settle Soviet Jewish émigrés. President Busb argued that approval would jeopardise the peace conference, took his case for a delay to Congress and the US public, and won.

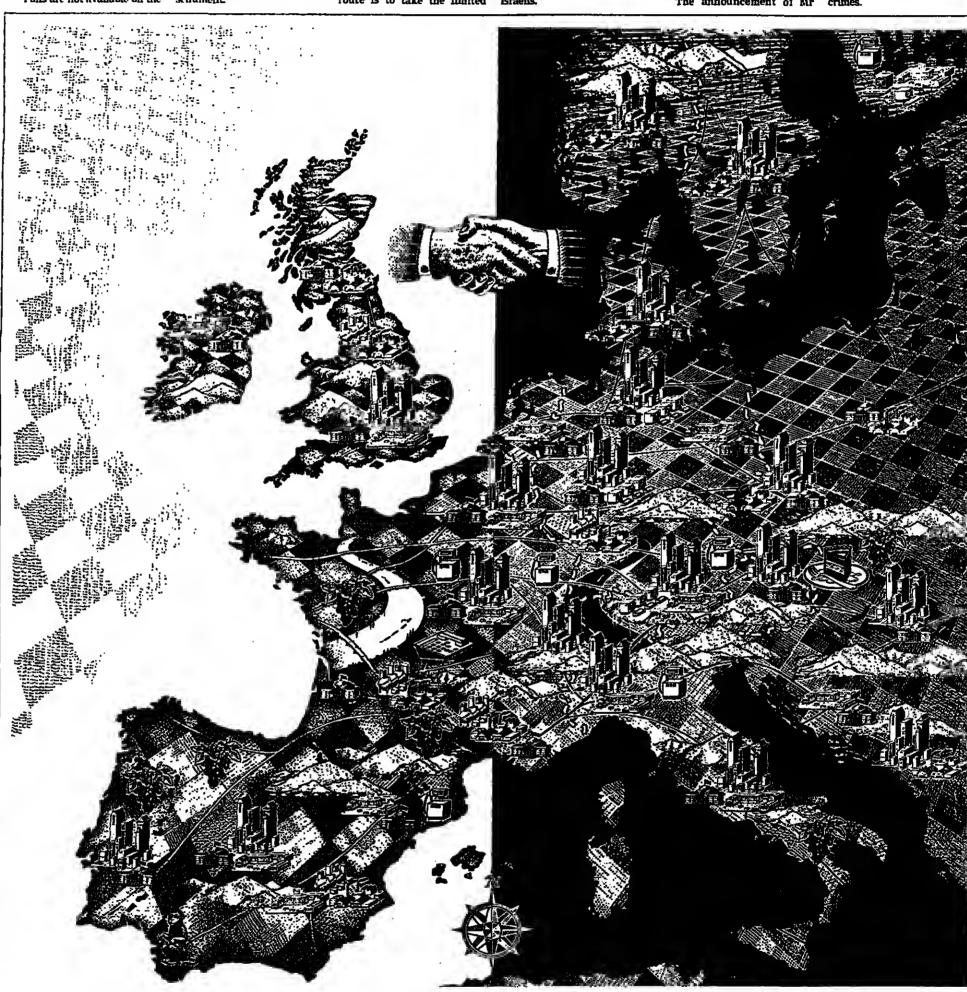
The US remains committed to Israel's security but is no least the conference of the committed to Israel's security but is no least the conference of the confe

longer its unquestioning patron. The US-led victory over iraq - coupled with the end of the Cold War and the decline of Soviet power - has left Mr Bush convinced that an his-toric opportunity for peace exists in the Middla East. The risk is that the Arab states may simply wait for the administration to keep applying the pressure on Israel without making any reciprocal conces

Mr Martin Indyk, executive director of the Washington Institute for Near East Policy, snms np Washington's dilemma as how to deal simultaneously with Arab expectations and Israel's trepidation. The trick, he says, is whether the US can discover "the bot tom line" in negotiations between the main parties, par-ticularly israel and Syria which would enable a future deal to be cut.

The most tantalising fact to emerge to date is that Israel has insisted the US remain out of sight in the initial phase of

the hilateral talks. This conflicts with Mr Shamir's often stated claim that there is no better mediator than the US; but it reveals Israel's fear that, even with a presidentlal election year approaching, the Bush administration may make one of those special US offers, which no one can refuse.



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INTERNATIONAL NEWS

BCCI 'tip-off' to drug dealers

comes at e time of rising con-cern about why the bank was not closed before 1991, given that widespread indications of criminal bebeviour were

turned up by the Ceotral Intelligence Agency (CIA) and other US agencies.

Mr Richerd Kerr, acting director of the CIA, on Friday told Congress that the CIA in 1985 failed to tell the Federal Reserve it had determined that

BCCI had secretly owned First

American Bankshares of Wash-

ington since 1981. Mr Kerr defended the failure

distribution of intelligence reports. The CIA, Mr Kerr said, had filed several hundred

reports since 1983 on BCCI

scious decision not to inform

Mr Jonathan Winer, an aide to Senator John Kerry, the Massachusetts Democrat who

ordered an official inquiry into

a \$600,000 contract accepted by former White House aide Mr Ed Rogers to represent a central figure in the BCCI affair.

Mr Rogers, former deputy to Mr John Sununu, the White

House chief of staff, resigned

from his post in August. Three

weeks later he travelled to Saudi Arabia to sign a contract as lawyer to Sheikh Kamal

Adham, the ex-head of Saudi

intelligence and a key BCCI

shareholder. Sheikh Adham is

being investigated by a US fed-

eral grand jury for his alleged role in the BCCI affair.



of dollars from the Bank of Credit and Commerce International (BCCI) days before the arrest of bank employees on money laundering charges, US investigators suspect.

Congressional investigators are tryiog to determine whether the leak – which led to significant withdrawals by members of Colombia's Medellin cocaine cartel before the October 1988 arrests - came from BCCI's contacts in US political or intelligence circles. The judiciary committee of the House of Representatives is understood to be questioning past and present US officials as

part of its investigation. The 1988 Florida arrests, involving BCCI employees and drug dealers, followed a "sting" operation by US Cus-toms agents. They resulted in the conviction of five low-level BCCI employees and led the bank to agree to pay a \$15m (£8.7m) fine in an out-of-court settlement in January 1990.

The decision by the US Department of Justice to accept such a small fine and to allow BCCI to continue operat-ing in the US has been sharply criticised by some US prosecutors and hy congressional investigators, who term the settlement e "slap on the wrist" that failed to stem the bank's illegal activities. In recent months the Justice

Department has defended its 1990 settlement, but has come under fire for failing to act on a number of leeds that emerged as a result of the Customs operation, code-named

The inquiry into whether US officials may bave leaked highly sensitive information about the BCCI investigation

Inquiry into Former Klansman repays bad words with a smile George Graham on David Duke, who wants to be Louisiana governor and sterilise welfare recipients

"If someone says a bad word to you, repay them with e smile," he warned his supporters as he prepared to lead them down the main street of Crowley at the weekend's Rice Festival Crowley, in the heart of the watery Cajun country of south-western Louis-iana, is the home town of Mr Edwin Edwards, the wheeler-dealer Demo-crat who held the governor's office for three terms before being voted out in 1987 under a cloud of corruption alle-gations and who is Mr Duke's oppo-

nent in next month's election. The parade passed off peacefully. But this traditional Edwards country has now split down the middle as Mr Duke — despite or because of his recent past as a leader of the white supremacist Ku Klux Klan — capital-

R David Duke, candidate for the governorship of Louis-iana, was expecting trouble. that brought him 485,000 votes in a first round of voting last Saturday to put him into the two-candidate run-off on November 16.

"I voted for Edwards last time be was governor. He's a very talented fellow. But we need a change," said Mr Mark Higdon, e marine coatings salesman from nearby Lafayette. Mr Duke's message to these dis-gruntled voters is simple: their taxes

are being wasted on welfare payments tq people who are too lazy to work.
"We're not against anybody if people need help, but a person that doesn't want to help himself, that's what we're upset about — people that have children just for a welfare cheque." Mr Higdon said. "It's simple issues like that, and no other politi-

cian will even touch them." "Getting people off welfare and put-ting them to work is what counts," said Mrs Cludy Melvin, from the town of Sulphur, who came to the Rice Festival parade to see her candidate. "He's really better looking in person

than on the TV," she added. The most distressed people in Louislana are the supporters of Mr Buddy Roemer, the incumbent Republican governor, e reformer whose third place in last week's vote eliminates him from the run-off.

any of Governor Roemer's supporters are angry with him for running a lacklustre and defeatist campaign, but they are even angrier at being left with impossible choice between Mr Edwards and Mr Duke – who runs as a Republican, though he is disowned

hy the party.

If you had asked me till last Saturday if I would ever vote for Edwin Edwards, I would have said never, never, never, said Mr Quentin Dastugue, a Republican state representative for New Orleans who has spent most of his political career fighting against the high-spending, ethically questionable government of Mr Edwards. "Now I am having to think

Mr Duke's racist past deeply worries many mainstream Republicans, who note that his message still car-ries scarcely veiled racial undertones, and that some of his policy prescrip-tions, such as sterilisation for welfare recipients, bear strong reminders of Nazi policies.

But they fear that an Edwards gov-ernorship could merely fan the flames of the resentment that is the foundatioo of the Duke vote.

"You have a very angry, disgrun-tled, middle-class white community who see their schools don't get any better, their potholes don't get fixed and their taxes keep going up. If Duke doesn't win this race and Edwin Edwards wins. Edwards represents everything the white middle class is angry about so it will just get worse,"

says Mr Dastugue.
Mr Duke's supporters are not in the least put off by his Ku Klux Klan past, and although most blacks in the state are convinced that he has not changed his spots, be bas even attracted a handful of black voters.

You never know what nobody has in their mind and heart till you give them a chance. I think he's a pretty cool guy." said Ms Mercedes Grace from the town of Rayne.

The efforts of President George Bush and the national Republican

leadership to dissociate themselves from Mr Duke may only strengthen his support. "If they can't support the man, just back off and shut up," said Mr Eugene Thornton, e retired air traffic controller from the New Orleans suburb of Metairie

ans suburb of Metairie. "in effect, what they are calling us is stupid reducks, and we don't want



A homeless man aleeps by a Bogotá billboard covered with election posters, on the eve of Colombia's congressional elections yesterday. Some 16m people were eligible to vote for a new Senate and House of Representatives.

Africa conference urged

By Michael Holman in Johannesburg

ended its inaugural congress vesterday with a call for the convening of an all-party conference to prepare the way for a constituent assembly and an interim government.

This assembly, elected on the basis of adult suffrage and proportional representation. would draw up South Africa's post-apartheid constitution. This marks the creation of a

powerful alliance between the African National Congress (ANC) and the Pan-Africanist Congress (PAC), the main concal parties, trade unions, and

other organisations. The organisers said yester-"A democratic order can only be ushered in through a mechanism in which our entire nation elects...a constituent assembly that drafts and adopts a democratic constitution... In order to ensure that the elections are free and fair, we insist on the establishment of an interim government... that shall at the very least control security forces and related matters, the electoral process,

SOUTH AFRICA'S "patriotic veners of the three-day confer- state media, and defined areas The alliance was made possible hy the PAC's move away

from its previous stance, amounting to a call for an immediate handover of power hy President F. W. de Klerk. There remains, however, a wide gap between the Patriotic Front demands and the government's position. The Durban conference

failed to heal divisions in black politics, with Chief Mangosuthu Buthetezi's Inkatha party not among the 60-odd organisations taking part.

Indian temple plan set back

By K. K. Sharma in New Delhi

which has vowed to build e temple at the site of a mosque at Ayodhya in northern India, has been thrown into confu-

A court has ruled that no "permanent structure" can be erected on the land being acquired near the mosque hy the Uttar Pradesh government.

The ruling was on a petition by three Moslems against the plans of the Uttar Pradesh government to acquire the land. This administration is controlled by the Bharatiye

THE Vishwa Hindn Parishad. Janata party, the Hindn reviv- land. Mr P.V. Narasimha Rao,

VHP. The VHP in Lucknow, capital of Uttar Pradesh, said that plans for building the temple were being temporarily aban-

However, its central leader ship In New Delhi sald yesterday that the ruling had oo effect on its long-term plan. The temple issue led to violence last year and tension has mounted between Hindus and Moslems recently after the Uttar Pradesh government

revealed plans to acquire the

been silent on the plans, said yesterday that the Uttar Pradesh government must obey the

The court decision bas helped the ruling Congress party on e difficult issue, before important parliamen-tary by-elections are held next

It has taken the position that the temple issue should he aettled hy negotiations between Hindus and Moslems and that the court's ruling

Vietnamese tread carefully to barter with China

By Stefan Wagstyl in Dong Dang, Vietnam-China border

TRADERS are picking their way through minefields to do husiness on the beavily guarded and mountainous frontier hetween China and

Since e border war 12 years ago, entrepreneurs have shepberded gangs of porters on steep trails linking the Viet-namese border town of Dong Dang, in Langson province, with Chinese villages in Gnangri on the opposite side. Every few days a bearer, carry-ing a load of 100kg or more, slips and breaks an arm or a leg. Every few months one steps on a mine and dies. A border guard said yesterday: Two or three days ago some-one got killed. It happens here

But there is no shortage of traders or porters willing to do the 2km climb twice or even three times a day: a tribute, perhaps, to the capitalist spirit on the frontier between the world's two largest surviving communist countries.

Trade has mushroomed since the authorities on both sides sanctioned these informal contacts two years ago, in order to control smuggling. With rela-tions between Beijing end Hanoi improving, the road will probably be opened in the next moment, the traders go by foot Cash rarely changes hands. Trade is done in barter, in guld, and sometimes in optum. The Vietnamese bring mainly

food, including fish, fruit, and live chickens and ducks. They buy mostly Chinese-made fabrics, pots and pans, and other household goods.

The Vietnamese traders do well by dragging across stripped-down Japanese-made reassembled by the seller on the opposite side. Spare parts can be supplied on later trips.
Japanese, Talwanese end Soviet generators and motors go the same way.

Car parts go nearly every day. Yesterday, a team of trad-ers had brought over to Vietnam bales of cloth and Chinese-made insecticide sprayers. Sweat shone on the porters' bare backs and chests, as they came down a steep, sandy path. They go fast, said the guard, because things weigh more when they move slowly.
Whether legal or not, the profits of trade have brought

wealth to Dong Dang and nearby Langson town. Rich traders own their own trucks - a rarity in Vietnam.

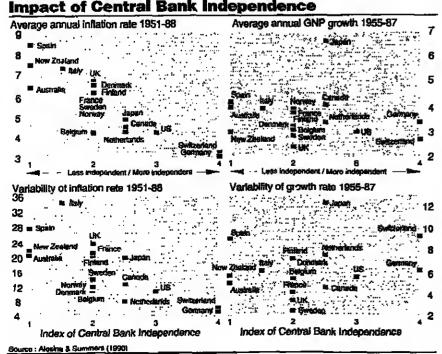
The communist-run local authorities get a share of the profit by levying taxes and dnties, according to a fairly vague schedule under which, for example, chickens are duty-



INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

	UNITED STATES JAPAN									E GERM	ANY				FRANCE					# ITALY	I UNITED KINGDOM										
	Marrow Manay (M1)	Money (MC)	Short Interval Rate	Long Interest Rate	Mariet Yest	Money (M1) (Money Markey M2 + CD4	Short Interest Rate	Later Confe	Market Water	Marray Marry (M1)	Bread Money (MIX)	Short Interest Rate	Long Interest Rate	Equity Married Tieds	Marrow (MI)	Breat Money (MS)	Short Interest Rate	Long Marcel Rate	Signific Market Yield	Manay (W1)	Money (M2)	(Beart Interpret Flate	Long Intervel Pate	Equity Market York	Macrow Manny (1903)	Broad Money (164)	Short Interest Rate	Long Interest	Equity Sinctral Years	
4	7.0	7.9	10.22	12.43	n.a.	28	7.8	8.48	8.80	n.a.	3.3	3.8	5.99	7.96	n.a.	8.7	11.0	11.77	13.33	n.a.	12.5	12.4	18.11	15.60	n.a.	6.5	12.9	10.03	11.33	n.a.	
5	8.2	8.1	8.00	10.62	n.a.	5.0	8.4	8.62	8.34	n.a.	4.4	5.1	5.45	7.09	п.а.	8.2	7.4	10.03	11.74	п.а.	19.7	14,0	14.34	13.71	n.a.	4.7	13.2	12.32	11.03	na.	
	123	6.9	6.49	7.68	3.43	9.9	9.7	5.12	4.94	0.84	6.6	5.9	4.63	5.18	1.79	6.8	8.5	7.79	8.74	2.65	10.4	8.0	18.25	11.47	1.41	4.0	15.3	11.02	9.97	4.35	
•	11.8	6.5	6.82	8.38	3.12	10.5	10.4	4.15	4.21	0.55	8.0	7.3	4.03	6.33	2.21	4.1	9.8	5.28	9.58	2.75	10.5	11.0	11.32	10.58	1.94	4.7	14.6	8.77	9.52	3.60	
)	4.3	5.4	7.65	6.84	3.61	9.4	11.2	4.42	4.27	0.54	9.8	5.4	4.33	6.58	281	3.8	8.5	7.94	9.02	3.69	7.5	8.1	11.24	10.54	2.71	8.7	17.0	10.41	9.69	4.48	
9	0.8	3.8	8.99	8.49	9.43	4.1	9.9	5.31	S.11	0.48	5.9	5.7	7.12	7.02	2.22	8.1	9.5	9.39	8.79	2.88	8.1	10.1	12.41	11.81	2.48	5.9	17.8	13.96	10.30	4.38	
0	3.7	5.2	8.06	8.55	3.60	28	11.7	7.62	7.27	0.65	4.5	4.5	8.48	8.83	2.17	3.8	9.2	10.32	9.87	3.19	8.0	9.8	11.98	11.87	2.84	5.3	18.2	14.82	11.65	5.07	
gtr.1990	4.2	3.8	7.89	6.31	3.86	5.0	10.0	9.19	7.18	0.80	8.9	5.4	8.90	8.92	2.51	3.8	6.2	10.11	10.07	3.77	8.5	10.0	11.80	11,74	3.55	3.3	13.8	18.89	10.95	5.58	4th atr
tr.1991	4.4	9.1	6.69	8.01	9.48	2.4	5.0	7.96	6.54	0.75	9.3	5.5	9.17	8.43	2.51	0.5	7.5	9.85	9.30	3.64	7.8	8.1	12.37	11.88	9.69	2.8	10.8	13.30	10.30	5.22	· 1st qt
qtr.1991	5.2	8.4	8.03	8.12	8.16	3.3	3.7	7.70	8.71	0.71	5.D	5,5	9.11	5.25	2.25	-D.7	8.5	e.43	8.95	3.48	7.5	6.6	11.51	12.87	6.21	1.7	9.1	11,64	10.34	4.84	2nd qt
qtr.1991	8.0	25	5.79	7.93	9.10	8.8	2.8	7.11		0.75			9.24		231			9.54		9.60			11.60		3.31	1.8	7.1	10.82		4.80	3rd otr
bar 1990	4.2	4.5	7.98	8.72	9.96	4.2	11.8	8.18	7.66	0.80	5.8	5.2	8.60	8.72	2.50	0.5	7.8	10.04	10.36	3.75	9.2	10.0	10.98	11.58	3.36	3.6	14.2	14.07	11.56	5,61	1998. Oct
ember	4.4	3.8	7.90	8.39	9.88	4.4	9.8	8.22	7.35	0.82	6.0	5.6	8.68	8.68	2.54	0.8	7. a	10.00	10.16	3.78	8.7	10,2	11.93	11.69	3.67	3.2	14.3	13.70	11,25	5.81	Nove
ember	4.0	9.3	7.80	8.05	9.74	6.2	8.5	8.17	6.79	0.80	7.0	5.3	8.21	8.69	2.50	3.8	9.2	10.29	8.89	3.79	7.9	8,8	12.59	11.96	3.65	2.7	12.3	13.87	10.77	5.44	Dece
ary 1991	3.6	3.0	7.11	9.07	3.79	5.1	7.4	9.07	6.59	0.80	8.6	5.2	6.35	8.74	2.67	-0.4	7.5	10.28	9.75	9.83	5.6	8.4	12.48	12.04	3.96	3.4	11.2	14.02	10.53	5.60	1991 Ja
ruary	4.4	3.1	6.50	7.84	3.37	1,0	- 5.5	7.89	6.39	0,74	5.6	5.4	8.08	8.25	2.45	1.5	8.0	8.79	9.11	3.62	7.5	9.2	12.45	11.90	3.64	28	10.8	13.32	10.12	5.18	Feb
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	4.3	3.2	6.08	8.03	3.17	0.3	3.8	7.75	6.69	0.70	4.5	5.5	9.18	8.20	2.30	2.2	7.5	9.34	8.88	3.46	6.6	8,8	11.74	18.07	8.36	. 1.6	8.8	12.02	10.17	4.74	
•	5.5	3.5	. 5.92	8.07	3.20	3.2	9.6	7.72	6.64	0.71	5.3	5.7	9.08	8.30	2.25	0.8	6.8	9.24	8.86	3.44	7.8	8.7	11.39	12,82	3.24	1.6	9.6	11,59	10.32	4.85	
•	6.8	3.4	6.10	8.27	3.17	a. 6	3.7	7.63	6.73	0.72	6.1	5,4	9.06	8.35	2.18	-0.7	5.6	9.72	9.11	3.53	8.5	10.4	11.40	12.72	3.02	2.0	7,9	11.30	10.53	4.96	: .
	8.0	2.6	6.05	6.28	3.14	6.1	3.4	7.45	6.67	0.75	5.8	5.8	8.15	8.59	2.29	- 1.4	5.3	9.59	9.18	9.59	7.0	8.3	11.54	13.15	3.24	2.0	7.7	11.14	10.25	4.91	
ust	6.1	2.5	5.72	7.85	3.07	7.2	2.7	7.21	6.46	0.77	4.8	5.8	8.31	8.54	2.32	20	5.9	9.59	8.09	3.62	7.0	8.3	11.69	18.07	3.31	1.5	7.2	10.94	10.00	4.75	A
lember	5.9	2.1	5.58	7.65	3.08	7.1	2.2	6.64	6.18	0.76			9.27	6.42	2.31			8.43	8.88	3.47			11.56		3.39	22	6.4	10 37	ORE	4 70	
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A (modest) case for an independent central bank



MOST ALTERNATIVE hipeprints for and successful central bank of all. European monetary union (Emu) ehare one common feature. There are meny banks often cleim that freedom from differences of opinion about convergence political control delivers more than just requirements or the need for fiscal conlow inflation. Freeing monetary policy

trois on individual governments. But there is widespread agreement that the European central bank should be independent of political control. The mein argument for an independent central bank is empirical. Those coun-

tries which have experienced the lowest end most stable infletion rates in recent decades are those in which the central bank is charged with maintaining price stability end insuleted from the political process. Even if these countries' governments went to boost the money supply. raise output now at the expense of infletion letar, they are unable to do so. Indeed, the success of the European exchange rate mechanism (ERM) In lowering Europe-wide inflation rates is based on the Independence of the German Bundesbenk. European countries without Independent central banks have effectively been able to peg their inflation rate to the most independent

But advocates of independent central from the vegaries of the political cycle mey also lead to fewer fluctuations in output and to a more predictable monetary policy. Some cleim that removing the distortions and uncertainties caused by high or variable inflation will also lead to higher rates of economic growth. Opponents of independent central

banks find it hard to deny the link between independence and low inflation, although they can doubt the direction of causation. Countries where the tear of inflation is greatest may be those that give the most independence to infletionhating central bankers. But there may be a cost to pursuing low end stable inflation as the sole goal of monetary policy. Denying governments the ebility to use

monetary policy to stebilise the economic cycle mey actuelly lead to more variable output and higher unemployment. So the issue is whether independent central banks tend to deliver higher or

lower and more or less variable rates of economic growth and unemployment. Mr Alberto Alesine and Mr Lawrence Summers of Harvard University have investigated these claims using a sample of 17 OECD countries over the past 35 years." They use an index of central bank independence based on a number

of measures, including the length of ten-ure of the centrel bank governor and the frequency of contacts between the government and bank officials. Their results confirm that those coun-

tries with more independent central banks have tended to have lower end less volatile inflation rates in recent decades, as the left-hand charts show. However, independent central banks are not generally associated with higher or less voletile rates of economic growth. Spain, Australia and Italy all had

higher averege annual growth rates than Germeny over the period 1955-87 despite having less independent central banks and higher average inflation rates. The same results are true for the period since 1973. There appears to be no truth in the claim that countries with below

average or stable inflation rates have bove average growth rates. Nor are independent centrel banks associated with more stable economies,

or lower unemployment rates. Australia and the UK have both had more stable rates of growth than either Japan, the US or Germany, all of which had a more independent central bank.

So whife independent central banks do seem to deliver low and stable inflation, they do not tead to more dynamic or stable economies. But they do not lead to more instability either.

if individual European governments or voters want low inflation, then an independent European centrel bank is a good idea. But if they also want higher growth, economic atability or low unemployment they will have to look eleewhere.

Edward Balls

A. Alesine & L. Summers, "Central Bank Independence and Mecroeconomic Performance: Some Comparative Eddence", Harvard Institute of Econog Research Discussion Paper No. 1498

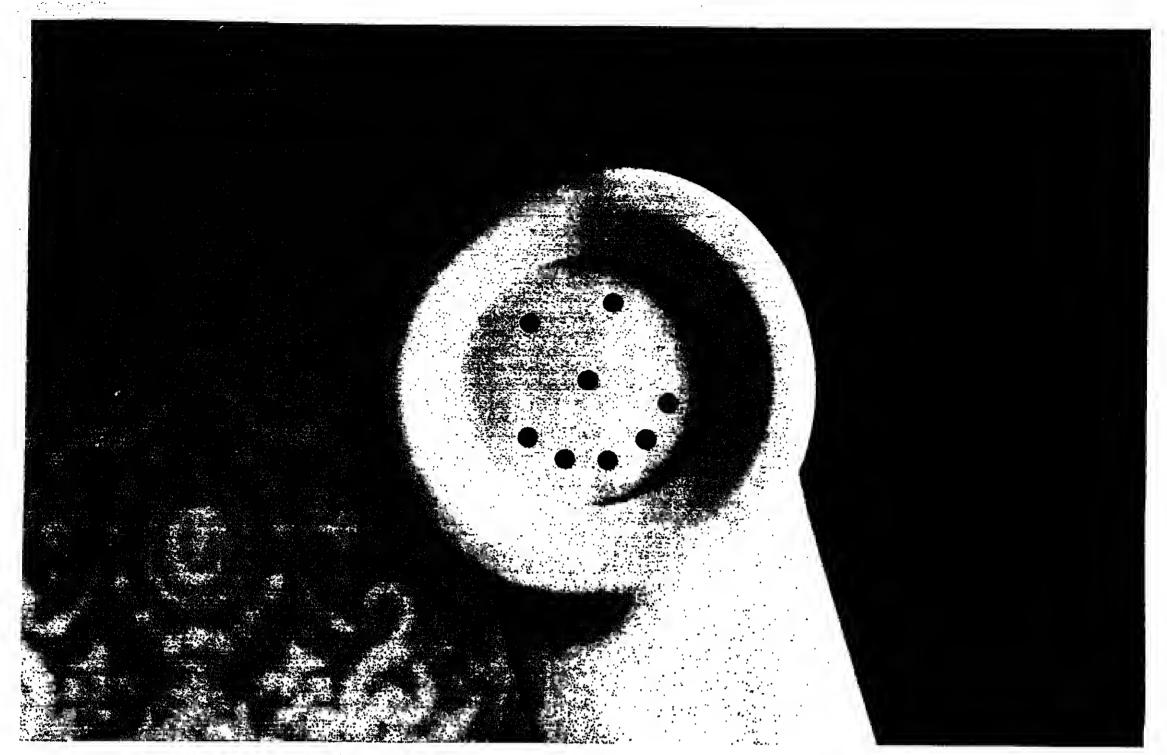
FINANCIAL TIMES MONDAY OCTOBER 28 1991

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By now, you have probably heard that some of the Government's remaining shares in BT will be offered for sale this November.

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coupon and send it to the address opposite, or call 0272 272 272.

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UK NEWS

British Gas to discuss supply monopoly with OFT

By Deborah Hargreaves

BRITISH Gas will meet officials from the Office of Fair Trading this week to discuss sweeping changes to its business. The meeting will mark the first talks between the company andcompetition officials since the release of the OFT's critical report

on gas competition three weeks' ago. The OFT has called for the break-up of British Gas's monopoly supply to the UK's 17m household customers, as well as the sale of its

Rise in

among

directors

By Charles Batchelor

months, according to the latest

bi-monthly survey of business

opinion carried ont by the

Institute of Directors.
Of the 300 directors polled

by the institute, 52 per cent are more optimistic about eco-

nomic prospects generally compared with 36 per cent in

company compared with 48

per cent in August. However, the survey shows that business performance has

yet to show an upturn and

that order books, volume of

business, employment levels and profits remain flat.

Forty three per cent of busi-

nesses cite cash flow as their primary concern ahead of insufficient demand which has

fallen to 31 per cent from 37 per cent. The institute says

that a shortage of cash is a classic indicator that husiness

activity is increasing.
Thirty four per cent of direc-

tors report improved order books compared with 30 per

cent but only 33 per cent say profits are improving com-pared with 34 per cent. Fifty five per cent forecast there

will be no change in employ-ment levels but those expect-

ing an increase rose from 24

Director Publications, Mount-barrow House, Elizabeth Street,

per cent to 31 per cent.

London SWIW 9RB. £15

confidence

pipeline and storage system and the radical changes on the utility. The talks must move extremely

Sir Gordon Borrie, director-general of Fair Trading, has set a deadline of the end of the year to discuss with the company how these measures can be implemented. If no progress is made, he will refer British Gas to the properties of the propertie an investigation by the Monopolies and Mergers Commission which could impose even more

The talks must move extremely quickly over some very complex issues. British Gas is likely to challenge the OFT's assertion that competitors are unlikely to gain 30 per cent of the firm industrial market for gas by 1993 – a target set by the regulator. (The firm industrial market excludes gas supply to power generators.) In addition, the company is expec-

ted to stress the useful function It provides in the market by virtue of its monopoly power. For example, gas specialist at the Royal Institute provides in the market by virtue of its monopoly power. For example, British Gas supplies back-up gas in pipelines which makes up for any temporary shortfall in competitors' supplies. If the pipeline system is moved to an entirely separate sub-sidiary, British Gas will not be obliged to do this at all. "The OFT has not thought

through the consequences of remov-

for International Affairs in London, "these are social and political dynamite. Can you imagine what happens if domestic customers go with-out gas for even a short amount of time because of a minor glitch in the

The OFT, on the other hand, appears prepared for some disrup-

tion in the market which will be associated with big structural change. But it believes this should be shortlived and easily overcome and will argue against any scare tac-tics adopted by British Gas.

If British Gas does not show a

strong enough commitment to mak-ing changes in its business, Sir Gor-don will be quick to refer it to the Monopolies and Mergers Commis-

Sponsors sought for more

By Raymond Snoddy

THE independent television network yesterday announced a big extension of its sponsor ship scheme with 37 pro-

grammes to be made available for sponsorship next year. The list includes drama such as Inspector Morse and light entertainment programmes such as Aspel and Company and This is Your Life. It follows the relaxation in

January by the Independent Television Commission of sponsorship regulations, and the success of ITV's coverage of the Rugby World Cup, spon-

Sored by Sony.

Meanwhile, two independent analysts have expressed doubts on claims by the commission that the Treasury would receive only an extra £40m a year on average as a result of the ITV competitive tenders.
Datamonitor, a market anal-

ysis company, said that — par-ticularly in the early years of the new franchises — the amount would be much higher and would probably be much closer to £100m.

If the £100m figure is correct it would mean the FTV system coming under much greater financial strain in the first few years of the new licences than the ITC figures implied.

The ITC argued that the average annual payments of all the winning companies would be £350m in 1991 prices. This figure would compare with £250m a year in Exchequer levy if the existing levy on revenues on profits were to continue throughout the new fran-chise period.

The ITC then argued that a

further £60m in deductions had to be made from the £100m difference because of factors like the Welsh Fourth Channel being funded by the Treasury in future.

Euromonitor, a research company which plans to pub-lish a study of the UK televi-sion industry at the beginning of next month, says: "We believe this [the £40m figure] is based on very optimistic reve-nue and profitability figures in the calculation of what would have been paid had the existing system continued."

Poorer return on assets found in west Midlands companies

By Paul Cheeseright, Midiands Correapondent

COMPANIES in the west Midlands, the region which is a barometer of the UK manufac-CONFIDENCE about the future turing sector, have been work-ing their assets harder, but of the economy has risen strongly among company directors over the last two

receiving a poorer return.

The companies have been digging into cash resources not only to meet high interest charges, but to keep sharehold-ers happy with dividend payments, according to a study to be published by KPMG Peat Marwick, the accountancy

The study looks at 100 quoted companies in the region against a background of fears the August survey. Fifty six per cent say they see a brighter outlook for their own for the future of the regional manufacturing economy.

The 100 companies made pre-

tax profits in 1990-91 of £2.16bn, against £2.53bn in 1989-90. Their net interest bill climbed to £332m from £272m but their interest cover - the number of times profits cover Interest payments - fell to 7.5 from

Total gearing, at 30.5 per cent in 1990-91, was marginally higher than the previous year. Although earnings fell and margins were being squeezed

by the inability to pass on higher costs to customers, the amount paid out in dividends rose to £668m in 1990-91 from

£617m. The food, hrewing and ntili-ties sectors — which are under-represented in the west Mid-lands — performed the best in 1990-91, although the only sec-tor showing an increase in operating assets was food. The main problems have been faced in the engineering building

in the engineering, building and general industrial sectors. KPMG estimates that, in spite of drops in interest rates, sales and profits will continue to fall in the immediate future. Mr Richard Archer, KPMG senior partner in Birmingham, said: "I believe that all the talk of an upturn at the moment is quite illusory." Any increase in demand was the usual seasonal

An upturn will create, in any case, its own problems for many companies, including smaller businesses outside the

scope of the study.

Mr Edward Roberts, chairman of the West Midlands region of the Confederation of

British Industry, said: "If mar-gins are squeezed so tightly, if the banks are looking carefully at finance, how will companies have enough working capital. As demand picks np., your cash resources drain - that's what always canses the second

phase of corporate collapses."

Arguably, the problem for the west Midlands is less to do with capacity and more that recession has eroded the

recession has eroused the region's competitive position.

Mr Chris Tillett, economist at consultants Coopers & Lybrand Deloitte, pointed out that there had been a "collapse of investment" over the last year. "Unless this adverse trend can be rectified over the next year, the region's capabil-Ity to compete effectively in the European single market could be significantly dam-aged," he said. For the medium term,

growth prospects in the region look modest. The West Midlands Enterprise Board forecasts that regional gross domestic product will grow at 2 per cent a year for the rest of the decade.



Reflecting the gloom: the west Midlands is seen as a barometer for the manufacturing sector

Oil output is forecast to bring technical end to recession

THE RECESSION reached its lowest point in the second quarter, but will technically terminate in the third quarter because of a rebound in North Sea oil production, according to the

London Business School Hard evidence of recovery remains elusive and the non-oil economy is expected to remain weak until 1992,

the school says in its latest economic forecast, which has been built on the assumption that the Conservatives win the general election. The forecast says the fall in output has reached a trough and gross domestic product (GDP) in the third quarter should rise 0.5 per cent. In 1992 GDP is expected

Mr Geoffrey Dicks and Professor David Currie, the authors of the forecast, say that although the economy has undergone an "accelerated transi-tion to European levels of inflation" unemployment will continue to rise, reaching 2.7m next year and peaking at 2.8m in 1993.

Retail price inflation (RPD, down

from an annual rate of 10.9 per cent at its peak last October, to 4.1 per cent in September, will fall further this month. With wage inflation holding steady at around 6 per cent, the forecast expects the RPI to average 3 per

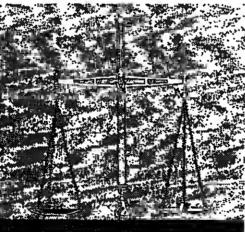
cent over the next four years.
As inflation falls, the principal constraint on lowering interest rates is

monetary policy in Germany. The forecast says: "With sterling vying with the French franc for bottom place in the ERM, the maximum that can probably be achieved is a 0.5 per cent cut in interest rates."

Economic Outlook. Conver Publishing, Croft Road, Aldershot, Hants GU11 3HR. Subscription £175.



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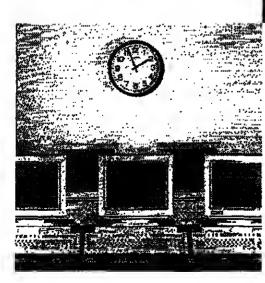
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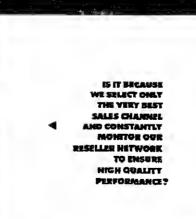
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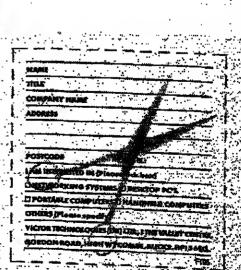


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BAe, RR cut launch repayments

By Charles Leadbeater, Industrial Editor

BRITISH Aerospace and Rolls Royce bave cut sharply their repayments of government launch aid amid mounting ministerial concern at the vulnerable state of the UK aero-space industry. Detailed accounts of Depart-

ment and Trade and industry finances published recently show that British Aerospace's repayments last year of launch aid for its civil aircraft programmes was about 25 per cent below the level forecast, while Rolls Royce reduced its repayments hy about 40 per cent.

The disclosure of the reduced payments comes as ministers at both the DTI and the Ministry of Defence are keeping s close watch on the two companies which form the core of the British aerospace industry, one of the UK's most successful manufacturing

industries.
The DTI's appropriation accounts show that in the last financial year Rolls Royce repaid £17.8m in launch aid for its RB211-535 engine, ahont £12.3m less than it was supposed to under estimates made at the start of the year.

The company is also trying to negotiate a lower schedule of repayments for future years to reflect the extra development work on the engine which it has financed. The DTI said the short fall in payments was due to Rolls' lower than

expected engine sales. BAe repaid £34m in launch aid, £9.4m less than anticipated largely hecanse industrial action and slower growth led to lower than expected sales of commercial aircraft.

The MoD is keeping a close watch on the unfolding financial and managerial crisis at BAe which is braced for an embarrassingly low take up of its £432m rights issue this

While BAe is assured of the funds it needs to strengthen its halance sheet bacause tha issue is fully underwritten, ministers are concerned that the low take up of the issue reflects a lack of confidence in the company's management among institutional investors which could further damage BAe's standing.

In a separate development, Mr Peter Lilley, the trade and industry secretary recently met Lord Tombs, Rolls Royce's chairman and Sir Ralph Robbins, the company's chief executive to discuss the aero engine group's position after British Airways decision to

buy US engines for its new fleet of Boeing 777 aircraft. Although Rolls Royce pub-licly insists it does not want to make British Airways' decision to buy engines from General Electric, the US group a cause celebre. It could yet become highly controversial with both British companies lobbying

behind the scenes.

Mr Lilley assured the two executives that the government would take a firm line if there was any evidence that General Electric, had won the order through a reddent price. order through predatory pric-ing to break into Rolls Royce's domestic market. The Office of Fair Trading is inquiring into a related aspect of the deal in which General Electric bought British Airways' engine main-



Lord Tombs: repayments have been cut hy 40 per cent

tenance facilities in south Wales for £272m. Both British Airways and General Electric believe that Rolls Royce's behind tha scenes pressure prompted the government to take the unusual step last week of dis-closing that the OFT was inquiring into the deal.
Rolls Royce says it has

responded to a routine OFT request for information about the deal in which it also made a hid for the engine facilities as well as to supply engines for the BA Boeing 777 fleet. British Airways said it chose

the GE-90, an engine which is still under development, hecause GE offered a more attractive financial package.

BRITAIN IN



MoD denies reviewing army plans

The Ministry of Defence denied weekend reports that the government was reviewing plans to amalgamate Scottish

However, the MoD said that since the Scottish amalgamations were not planned to take place until 1993 there was time for charges if circum-

stances altered.

Desplte this denial of an immediate review, the Labour party claimed there was an "open and growing split" within the government between Mr Tom King, defence secretary, and Mr Ian Lang, Scottish secretary. Mr John Reid, a Labour defence spokesman, called on Mr King to make a statement. The amalgamation plans, which form part of large scale cuts in defence spending, have prompted strong opposition in

many of the areas affected and have raised fears among government supporters about their impact on the Kincardine and Deeside by-election (background this page).

Job-related training rises

The number of people receiv-ing job-related training has nearly doubled since 1984 sccording to the government's

latest training statistics survey to be published this week.

The survey, which draws heavily on the Labour Force Survey, shows that in 1990 15.4 per cent of employees had received training during the previous four weeks compared with only 9.1 per cent in 1984.

The training statistics survey also estimates that the total cost of training in the UK

total cost of training in the UK is £33bn. in July of this year 26 per cent of employers said they expected to spend more on training over the next 12 months compared with 21 per cent who expected to spend less and 47 per cent who expected to spend the same.

ITV to extend sponsorship

TTV announced a big extension of its sponsorship scheme for network television with a list of 37 programmes to be made available for sponsorship in

The list includes drama such as Inspector Morse and light entertainment programmes

such as Aspel and Company and This is Your Life. It follows the relaxation in January by the Independent Television Commission of programme sponsorship regulations, and the success of ITV's coverage of the Rugby World Cup, spon-sored by Sony.

Meanwhile, two independent analysts have expressed doubts on claims by the Inde-pendent Television Commis-sion that the Treasury would only get an extra £40m a year on average as a result of the ITV competitive tenders.

Childcare lacking

Only one child in 250 has the chance of attending a work-place nursery in London, according to Working for Childcare, an organisation for the development of quality

childcare. To coincide with the launch hy the prime minister today of Opportunity 2000 - a husiness-led initiative to improve tha position of female workers -the organisation carried out an aodit of workplace nurseries in London, it said there were 62 in London, providing 1,850

The majority of these places were provided by public sector employers including local authorities, hospitals, colleges. the BBC and the civil service. Working for Childcare estimates there are 465,000 children under the age of five in

the capital.
It said: "Lack of childcare is the biggest barrier to women's

ishingly, more than 50 per cent of the votes cast as well.

With a general election imminent, the government is now faced with a potential massacre. Only two of its cur-

rent 10 Scottish seats can be described as rock solid. Else-where, from Galloway in the

equality in the workplace. Yet state provision is also minimal. Less than 3 per cent of underfives in London have a publicly funded nursery place."

The second secon

Rise in low pay prosecutions

There have been 83 prosecutions since 1979 out of more than 100,000 companies found paying below Wages Council minimum rates, according to a government statement to a Labour MP.

Only 9 prosecutions were hrought by the Wages Inspectorate last year – but already this year the number has risen

The Low Pay Unit has wel-comed this tougher line, but says that with 71 inspectors covering more than 300,000 establishments the inspectorate has insufficient resources.

If the Conservatives win the next election the inspectorate is likely to be disbanded. Labour is committed to sub-stantially heefing up the inspectorate and sanctions against law-breakers.

Australia tipped

Australia are 1-3 favourites to beat England and win the World Cup at Twickenham on Saturday after their 16-6 semi-final triumph over New Zea-land in Dublin.

England, who beat Scotland 9-6 at Murrayfield on Saturday in the other semi-final, are rated 11-5 to lift the Wehh Ellis

Proposals for union reform face setback

By David Goodhart, Labour Editor

THE Engineering Employers Federation (EEF) has rejected important elements of the government's proposals to reform unions. It disagrees with several points - legally enforceable collective agreements, postal as opposed to workplace ballots, and annual employee confirmation of automatic check-off of union dnes.

With both the organisation of trade union members within the Conservative party and the CBI expected to take an even

the KEF it seems that few of the proposals will reach the statute book in the event of a

Conservative election victory.
The EEF does support the proposal that seven working days notice of any industrial action should be given by a

less enthusiastic stance than

trade union following a secret ballot and the proposal to override the TUC-administered Bridlington rules, which determine which TUC union a worker may join,

and says that it would not expect a rash of inter-union disputes as a result.

The organisation, with 5,000 member companies, suggests:

The complex law on industrial action, immunities and balloting should he consolidated into one act.

 Instead of making collective agreements legally enforceable - which could have disadvantages for employers - trade unions should be penalised for endors-

ing industrial action in breach of collective agreements.

It adds: "Our experience is that incidence of industrial action involving breaches of collective agreements hy trade

unions is not common. The organisation says the proposal that there should be annual written consent to check-off of trade union dues by employers would be "an unnecessary administrative nightmare without any commensurate benefit".

Rise of a new political spirit

Ivo Dawnay on the decline of the Conservative party in Scotland the party holding not merely over half the seats but, aston-

NE of Britain's wealthiest electorates is contemplating alternatives to the Conservative party. Transplant the rambling

Kincardine and Deeside consti-tutency on the Scottish east coast, close to Aberdeen, to the south of England and you could count on a 20,000 plus Conservative majority. Against the national trend, a new oil boom is fuelling the local economy, hoosting house prices and driving unemployment down to a statistically negligible 3

But all of Scotland is now bandit country for the govern-ment and a victory for Mr Marcus Humphrey, its well mean-ing if wholly anachronistic landowner candidate, in the by-election next month would be almost as surprising as a Labour ooe. Before his death last August,

even Mr Alick Buchanan-Smith, the charismatic and much loved Tory MP, had found that only hy publicly falling out with the government could he hold a slim 2,063 majority over Mr Nicol Stephen, a young, hardworking Liberal Democrat local councillor. If Mr Stephen now fails to

win the seat on November 7, it will be quite as cataclysmic for his fellow Scottish Liberals as

a Tory defeat is predictable. "The Liberals have to win this one," said a canvasser for this one," said a canvasser for Mr Malcolm Savidge, Labour's 45-year-old teacher candidate. "If they don't, it gives the lie to their claim that weakness in national polls is made up for hy local strength. All their Scottish seats · half the parliamentary party - are pnt at

Yet with the psephological complexities of Scotland's four party politics anything remains possible. The more credible of two polis that emerged last week gays the emerged last week gave the Liberal Democrats 36 points to 28 for the Tories and 17 points each for the Labour party and the SNP.

But the more intriguing alternative - taken earlier and

deep southern lowlands through Ayr to Edinburgh and on up by Stirling and Perth to Kincardine on the Aberdeen coast, the Conservatives are

With a general election imminent, the government is now faced with a potential massacre. Only two of its current 10 Scottish seats can be described as rock solid. Elsewhere the Conservatives are under attack from all sides.

with a larger though less scientific sample showed just eight under attack from all sides.

Privately, even Tories w points between the four parginally ahead on 28 points (against 41 for the Tories in 1987), the Liberals on 26 (36), Labour on 24 (16) and the Scot-tish Nationalists' articulate Open University tutor, Mr

Allan Macartney on 20 (6).

Whatever the true position, evidence of the electorate's volstility came in figures showing the "undecided" running as high as one in three, giving all parties a sense that everything

is there to play for.
For lifelong Tories, the polls beg the question as to how their party has fallen so dramatically from grace? As recently as 1955, Scotland was a Conservative stronghold with

Privately, even Tories will agree It is not impossibla that the election will leave them with just four seats making them merely the fourth party in the country, behind the

"The problem is that we have become identified as the English party," one Scottish grandee admitted last week. "Mrs Thatcher was seen as wholly out of sympathy with Scotland and we are reaping

the whirlwind."
In Kincardine and Deeside, it is that perception of arrogant English neglect that is ranged against Mr Humphrey. His speeches are consequently peppered with unflatterring references to the former party leader and praise for Mr John

Major as "a welcome breath of fresh air". in addition, Mr Humphrey has been forced time and again on to the defensive on the dom-

inant local Issues. Furthermore, when Mr Mich-ael Forsyth, the firmly Thatch-erite MP for Stirling, visited the constituency, party organ-isers had to ensure he was kept away from the candidate to avert the embarrassment of

public disagreements.

All this has added greatly to the amusement of Labour and the SNP, neither of which had orignally dreamt of taking the seat. Qoestioned last week on the likely impact of "third party squeeze" on Labour, Mr Savidge had protested mildly. But when the first poll results came through as he

canvassed a staunchly Tory shopping mall in Banchery, his astonishment and delight told a very different story.

For the SNP too, the polls

have come as an unexpected fillip. With a low turnout and the parties close to level peg-ging, Mr Macartney and his colleagues insist that just 25. per cent of the vote could

decide the winner.
Yet when polling day comes, many voters' suspect that the contest will be between two varieties of anti-socialism. the traditional Tory ascendancy against the new Liberal Democrat technocratic meritocracy. Few now believe the old Scot-

• 1987 Election result: pative 19,438; Liberal Affigure 17,375; Labour 7,624; SNP 3,082

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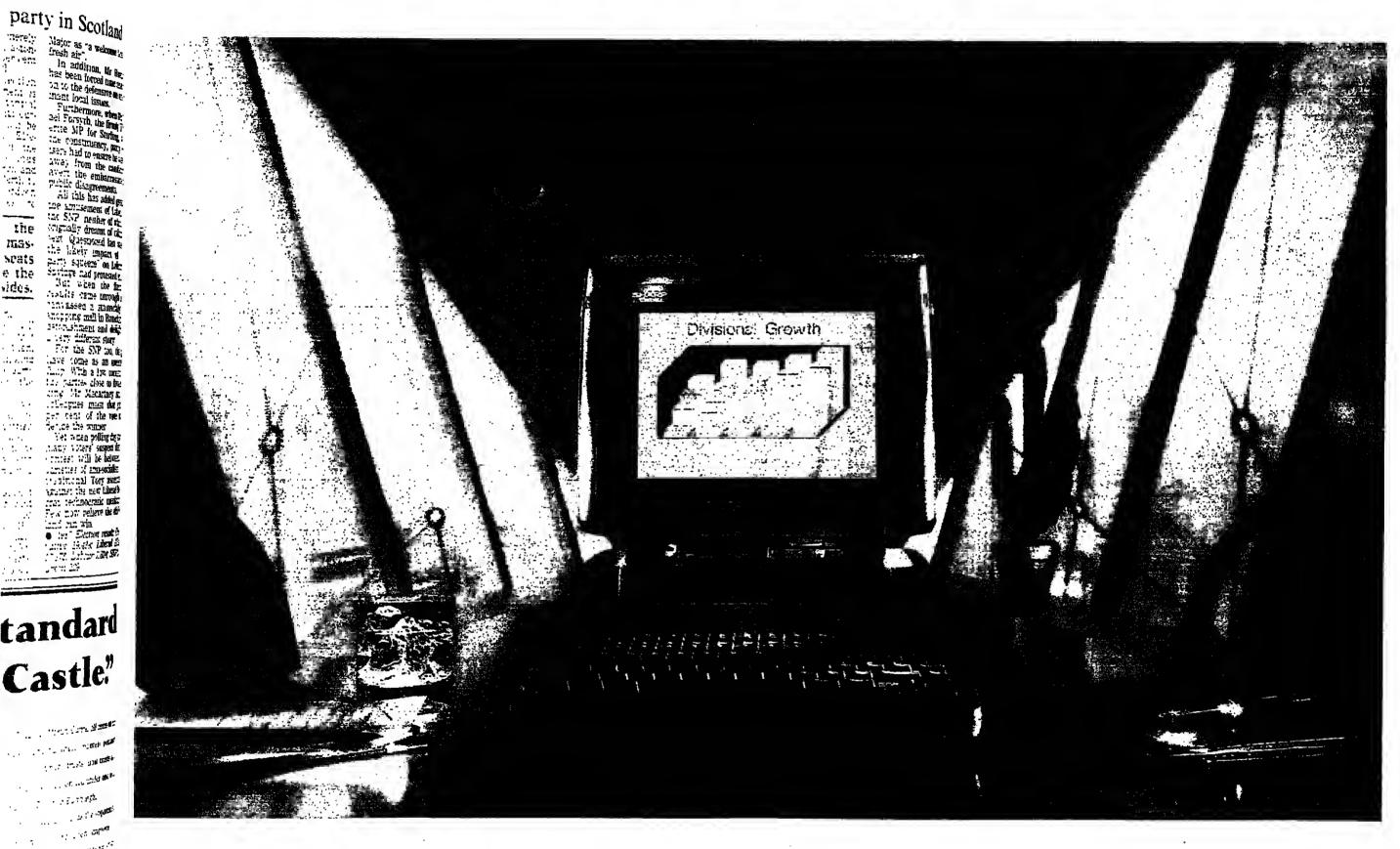
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UK NEWS

Rise in water pollution cases | US-style | Scottish 'disturbing'

leaked into a brook at Selhurst,

south London.
ICI was fined £4,000 for dis-

charges from its Castle Kellner

and Rocksavage plants, and another £10,000 for a chemical

spillage from Rocksavage. It was also fined £8,200 for pollu-tion of the Trent and Mersey

Canal which seriously dam

aged fish. Bernard Matthews

Food Ltd was fined a total of

£10,700 for three incidents over

the two years.
The privatised water compa-

nies were fined a total of

£49,000 for various offences.

The companies are Anglian, Northumbrian, North West,

Severn Trent, Yorkshire, Sonthern, South West, Thames, Welsh and Wessex In

addition Mid Sussex - not among the big 10 - was fined

In the rivers report Dr Jan Penreath, NRA chief scientist, says: "There has been a real and significant deterioration in

the quality of some rivers in recent years." This was caused by increased pollution and the

Since 1985, 15 per cent of riv

and 7 per cent improved.

Avon, Severn, Tame, Trent. Thames; The Thames, Cher-well, Lee. Wessex; The Frome. Northumbria; The Wear. York-

£20,000 for an offence.

By John Hunt, Environment Correspondent

THERE HAS been a "disturbing rise" in the number of polluting Aberford Lake, Bore-ham Wood, Hertfordshire, with companies and individuals paint and paint stripper from its Elstree site. British Coal was fined £7,500 for polluting the River Doe Lea, North Der-byshire, with coal, and £11,000 being prosecuted for water pol-lution offences over the past two years, according to a report published today by the National Rivers Authority for leakages into the River Sence, Leicester. British Rail was fined £3,000 after cable oil

The companies fined by the NRA, the water watchdog, include British Rail, Imperial Chemical Industries, British Steel, Shell, British Coal, Bernard Matthews Ltd, the BBC and the 10 water companies privatised in England and

In the report Lord Crickhowell. NRA chairman, warns industry thet a tough line will be taken against offenders. He says the NRA is "a watchdog

with razor sharp teeth". He adds: "The public rightly expects polluters to be brought to book in this way and they will continue to be. Wa will not besitate to prosecute when necessary, whoever the offender

may be."
In the second year of NRA operation, up to September this year, there were 574 successful prosecutions against compa-nies and individuals, including small farmers - a 72 per cent increase on the 334 prosecutions in its first year,

A separate report shortly to be published by the NRA will show a decline in the quality of many rivers and canals in

Mr Andrew Lees, of Friends of the Earth, the environmen-Most of the decline was in waters with the highest stan-dards of purity. The Thames and rivers in Devon and Corntal pressure group, which leaked the report, said the gov-ernment had presided over the slow and painful death of wall accounted for most of the deterioration.

According to today's NRA report, the biggest pollution incident was when Shell UK was fined £1m in 1990 for polluting the Mersey with 156 tonnes of heavy Venezuelan crude oil from a corroding pipeline. British Steel was ined £200,000 this year for an oil spill into the Severn Estu-ary - the second-largest fine for a pollution incident in

Plan for N-store

By Clive Cookson, Science Editor

SCOTTISH NUCLEAR is hoping to adopt a US-style nnclear store to keep spent fnel indefinitely at its two power stations, instead of A group of engineers and managers from Scottish Nuclear this month visited the recently completed \$30m (£17.6m) modular vault dry store (MVDS) at Fort St Vrain nuclear plant, in Colorado. It is designed to hold spent fuel safely for at least 40 years, without depending on power supplies or external ser-

State-owned Scottlsh Nnclear has chosen MVDS technology – developed in the UK by GEC Alsthom, the Anglo-French engineering company – for its two advanced gas-cooled reactors (AGRs) at Hunterston and Tor-

It is seeking government permission to store all AGR fuel indefinitely on site instead of sending it to British Nuclear Fuel's (BNFL's) Sellafield plant in Cumhria for reprocessing. Scottish Nuclear says long-term storage would be much cheaper than repro-

In contrast, Nuclear Elec-tric, its English sister com-pany, last month signed a £13bn contract with BNFL. which commits it to send fuel to sellafield from its AGRs and the older Magnox plants for the next 15 years.

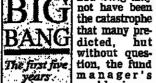
Magnox fuel is less suitable for long-term storage than AGR fuel. This enabled BNFL to negotiate an acceptable package with Nuclear Electric for both Magnox and AGR

Scottish Nnclear, which has no Magnox plants, now pays £80m a year for reprocessing. It estimates that the operating ers had been downgraded, while 11 per cent had improved. Fifteen per cent of canals had been downgraded costs of long-term dry storage would be half that. Rivers with downgraded stretches, by NRA region, include: Severn Trent: The

Environmental campaigners are likely to welcome Scottish Nuclear's move, partly because spent fuel would no longer need to be transported by road or rail and partly because they dislike reprocessing in princi-

Counting the cost of City deregulation

Norma Cohen finds the fund managers' world more uneasy than five years ago



BIG BIG Bang may not have been the catastrophe manager's world is a more uneasy

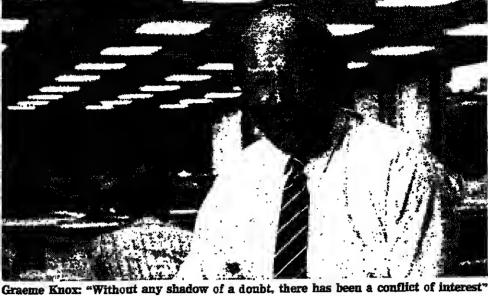
one than it was five years ago. By now, most have come to terms with the new world order, savouring the sharp cuts in commission costs, while beweiling the passing of an era when one's word was one's bond. In recounting how the world has changed, fund man-agers emphasise that it is difficult to separate the direct effects of deregulation from the impact of the torrent of compe-tition it engendered.

As expected, commission costs have heen slashed, so that each transaction is much cheaper than it once was. "Clearly, commission has nearly disappeared," said a fund manager. "We often deal net, and when we don't deal net, we deal at prices that would have been langhed out

of court five years ago."
But the fierce battle among
City stock brokerages to slash commissions and win institutional business has been accompanied by a new world order that has substantially

raised some costs.

In pinpointing the most significant change since Big Bang, fund managers agree that it is their relationship with the City that has been the most fundamental. That change has coloured the way the fund managers deal and



the way they have had to structure their own businesses to provide for themselves that which they once called on their

brokers to give them.
"Yuppie to yuppie, you can't trust 'em anymore," said one Edinburgh based fund manager. He said thet since Big Bang he and other Scottish fund managers have installed systems to tape all telephone conversations between brokers and clients. While taping has been a facet of City life for some time, it would have been unheard of in Scotland five years ago. Then, institutional investors agreed to underwrite rights offerings without even seeing the documentation.

something they say they will not do now.

Much of the benefit of the reduction in commission fees has been offset by an increase in salaries, particularly for enhanced research departments, fund managers say.

The rise of the combination brokerage house - part bro-ker, part jobber - has left fund managers with tha nagging concerns about conflict of interest. "The biggest single change has been the rise of the integrated bouse," said Mr John Stubbs, deputy director of Postel, one of the UK's largest pension funds with roughly £20bn under management. "People bave found it

Mr Graeme Knox, invest ment manager at Scottish Amicable, one of the UK's largest life insurers, said: "Without any shadow of a doubt, there has been a conflict of interest."

The changes were not entirely unexpected. In an FT survey of fund managers conducted on the eve of Big Bang, 11 per cent of respondents pre-dicted that the quality of research would suffer, while 21 per cent worried about conflicts of interests and 11 per cent predicted reduced liquidity in second-line stocks.

Today, there is an almost unanimous view that the quality of research is inadequate, nies. "Spending on research has not been paramount – cut-ting costs is," said the manager of a life insurance company. The effects of poor quality research has been most evident

among smaller companies, whose stock prices react sharply to profits warnings. Whether the inadequacies of wnether the inadequaces of second-tier corporate research reflect the integration of brok-ing and jobbing activities or is merely an outcome of competi-

tive pressure is ambiguous. But for fund managers, that is an irrelevant distinction. Fund managers say that de regulation has had a marked effect on liquidity. In the very largest stocks, it has actually improved, with increased num-bers of firms making markets in them. However, for so-called

beta and gamma stocks, liquid-ity is greatly diminished.

The trading losses which many firms suffered have made them reluctant to com-mit the same level of capital to the market, institutional investors say.

And, with heightened price transparency and the larger number of players, it is impossible to execute a major buy or sell programme without distorting the market. "By the time it's done, you've stuffed your own position," said one fund manager. "So what I do is to split the order between three brokers at the same time and stuff the market." the fifth anniversary of Big

Bang. Previous articles appeared on October 21, October 23, October 25 and October 26.

BT chief sees his 12.5% rise as 'catching-up'

FT Reporters

MR IAIN VALLANCE, chairman of BT, yesterday defended a 12.5 per cent pay rise which will increase his annual salary by £50,000 to £450,000. It was disclosed thet he may also be entitled to a performance-related bonus equivalent to half of his salary this year.

The disclosure of his pay triggered immediate contro-versy because the workforce at BT, formerly British Telecom, has settled this year for a rise of 7.3 per cent. There was a row in April when BT's annual

report showed that Mr Vallance had received a bonus for the previous year of £150,000. Mr Vallance said yesterday in an interview on LBC, the London radio station, that his rise of 12.5 per cent was part of a "slow catching-up process" for the BT directors, who were not paid as well as their coun-

cess was "pretty well "I do not see it as a bad example," he said, stressing

terparts in other blg compa-nies. He explained that the pro-

that he had given 30 per cent of his salary last year to char-ity and would "most likely" give any bonus payment to charity in the coming year.

"I hold my head up as high as anyone in the private sec-tor," he added. "Much of what we are about is in highly competitive international markets. I would argue BT must be one of the most difficult things to run in the UK." He said that the BT work-

force were paid very well com-pared with other workers in

the private sector. But he and other senior BT figures had not been paid as well as some of their counterparts elsewhere. Mr Gordon Brown, shadow

trade and industry secretary, called the rise "scandalous."
He called on Mr John Major, the prime minister, to back legislation that would force privatised organisations such as BT to cut prices to consumers if their directors were awarded

excessive pay rises.
"I am telling Mr Major that his Citizen's Charter is little

more than cosmetic windownot take new powers to protect the hard-pressed consumer against these boardroom excesses." Mr Brown added.

He said Labour would soon release evidence of the growth in the number of "boardroom millionaires" in privatised

companies. Mr Vallance's pay rise was set by BT's non-executive performance and that of the

LEGAL NOTICES

DRYSIDE LIMITER

NOTICE IS HEREBY GIVEN, pursuant to Sec

Creditors whose claims are wholly secured are not entitled to atland or be represented to the meeting. Other creditors are only embed to vote it:

- tal they have deliverd to us of the eddress above, no later then moon on 13 Nevember 1991, written details of the debts they claim to be due to them from the company, and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and
- (b) there has been lodged with us any proxy which the creditor hitends a be used on his or her behalf.

Signed: Jam N Corruthers and David R Wilton Joint Administrative Receivers

A copy of the report will be sent to creditors separately following the meeting.

GENERATED ELEMENTS

Act. The meeting may, if it thinks fit, estab-lish a committee to exercise the functions

Creditors whose claims are wholly secured are not entitled to attend or be represented of the meeting. Other creditors are only enti-ted to vote it:

- (e) they have deliverd to us at the eddress above, no later than noon they have detivered to us at the address above, no later than noon on 14 Novamber 1991, writing details of the debts they clairs to be due to them from the company, and the claim has been duly comitted under the provisions of Rule 2.11 of the inactivency Rules 1995; and

Signed: Ien N Carruthers and David R Writton Joint Administrative Receivers

A copy of the report will be sent to creditors separately following the meeting.

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Nazure of Businese. Manufacts, retrigerated semi-frailers
Trade Classification: 35
Date of appointment of Joint Administrative Receivers
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Joint Administrative Receivers
(Office holder sumbers 2041 at of Cork Gallly House
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London EC2V 7DQ

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NOTICE IS HEPEBY OIVEN, pursuant to Section 49(2) of the insolvency Act 1986, that a meeting of the unsecured creditors of the store numed company will be held at the Grand Holst, Colimors Rows, Birmingham, 53 2DA on 14 November 1991 at 10,00 am for the purpose of having laid before it a copy of the report prepared by the administrative receiver under Section 45 of the seld Act. The meeting may, if it thinks it, establish a committee to exercise the functions conformed on creditors' committees by or under the Act.

the Act.
Creditors whose claims are wholly secured and vici.

Creditors whose claims are wholly secured are not entitled to attend or be represented of the meating. Other creditors are only entitled to vote it.

(a) they have delivered to us at the address shown above, no later than noon on 13 November 1991, written details of the debts they claim to be due to them from the company, and the claim has been duly admitted under the provisions of Rule 3.11 of the inactivency Rules 1905; and (b) there has been lodged with us any proxy which the creditor intends to be used on his or her behalf.

Please note that the original proxy signed by on both of the creditors must be lodged at the address montions?, photocopies (including tured copies) are hot acceptable. Signed:

IMAGERY LIMITED

NOTICE IS HEREBY GIVEN, pursuant to section 48(2) of the insolvency Act 1999, that a meeting of the unsecured creditors of the above named companies will be held of the Grand Notal, Colmore Row, Birmingham, B3 2DA, on 16 November 1991 at 12 noon for the purpose of baving fald of the said Act. The meeting ray, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committees by or under the Act. Creditors are only entitled to vote it:

they have delivered to me at the address shown before, no later than noon on 14 November 1991, written details of the debt shy dalm to be due to them from the company, and the claim has been duty admitted under the provisions of Rule 3.11 of the Insolvency Rules 1900; and

Dated: 17 October 1991 Ian N Countitiers and David R Witton Julist Administrative Receviers A copy of this report will be sent to creditare

NOTICE OF APPOINTMENT OF JOINT ADMINISTRATIVE RECEIVERS

COLWYN STATION LIMITED MERLY LC.E. (COLWYN) LIMITED) Company No. 2488473

BOURNE LINGS LIMITED PRLY ABERDEEN UNION L'-JITED) Company No. 2540635 LICHTHELD WOOL LIMITED (FORMERLY LC.E. (LICHTELD) LIMITED) Company No. 2423533

GREAT YARMOUTH WOOL LIMITED (FORMERLY 1.C.E. (GREAT YARMOUTH) LIORTED)
Company No. 2483351
Properly Investment Companies
NOTICE IS HEREBY GIVEN that Michael Joseph Moore and David Jernes Waterhouse of Coopera & Lybrand Detoltis, Albion Court. 5 Albion Place, Leeds LST 63F were espointed John Administrative Receivers of the above rasned companys by Wootwich Bulkding Society on 25th September 1981.

UNITED RAILWAYS OF THE HAVANA AND REGLA WARRINGUSES LIMITED

NOTICE IS HEREBY GIVEN that on Extraordinary General Meeting of the Holders of Consolidated Stock in the above-named Company will be held at New Gardee House, 78 Hatton Garden, London ECIN 8.4 on 25 November 1991 at 12.15 pm, for the purposes of considering, and if thought fit, passing the following resolutions:

1 THAT the resignation of Adrian John Pontin as Liquidation of the Company with effect from close of business of the Meeting be and is bereity accepted.

2 THAT Edwin Devid Stantey Kirker of the firm of Pannell Ken Forster, Charlerod Accountants, be and is hereby appointed as Liquidator of the Company for the purposes of the Voluntory Winding-UP of the Company with effect from the close of business of the Meeting.

5 THAT the Account of the Liquidators acts and dealings and the conduct of the Winding-Up brought down to 28 November 1991 be and is hereby approved.

Dated this 21 day of October 1991

NOTE: A Consolidated Stock Holder entitled to attend and vote of this Meeting is entitled to appoint another as his proxy to attend and vote in his stead. A proxy need hol be a Consolidated Stock Holder is the Company.

NOTICE OF APPOINTMENT OF JOINT ADMINISTRATIVE RECEIVERS

YORK TRANSPORT ENGINEERING LIMITED

Registered Number: 778931 Nature of business: Engineering Trade classification: 35 Date of appointment of Name of Person appointing the Joint Administrative Receivers Joint Administrative Receivers S G Witarburg & Co Limited Christopher John Hughes, Christopher Jon Barlow John Frederick Powell and David John Stokes Jolof Administrative Receivers (Office holder numbers 2041, 552 7895 and 1982) Joiof Administrative (Office holder numi 2895 and 2882) of Cork Gully Shelley House 3 Noble Street London ECZY 7DQ

Registered number: 34334
Nature of Business: Commercial vehicle tipper body manufacturer
Trade classification: 35
Date of Appointment of Joint Administrative
Receivers: 17 October 1981
Name of Person Appointing the Joint Administrative Strative S O Warburg & Co Limited
Christopher John Hinghes, David John Stotes
Joint Administrative Receivers
(Office holder nos 2041, and 2682)

YORK TRAILER CO LIMITED

Registered number: 914748
Nature of business: Manufacturer of commercial semi-trailers
Trade Cassalication: 35
Date of Appointment of Joint Administrative
Receivers: 17 October 1991
Name of Person appointing the Joint Administrative Receivers: 3 G Warburg & Co Umited
Christicoher John Husten and Column

ce holder numbers 2041 and 552) of Cork

Gully Shelley House 3 Noble Street Landon EG2V 700

YORK BODYBUILDERS LIMITED

Registered number: 582415 Nature of business: Manufactur ctal vehicle bodies Trade Classification: 35 Dats of Appointment of Joint Feron appointing the Joint Admin-Receivers: S G Warburg & Co

Joint Administrative (Cates holder numb Guilly Shetley House 3 Noble Street London EC2V 7DQ

YORK TRAILER OVERSEAS LAMPLED

opher John Hughes, Christopher John John Frederick Powell and David John Stokke Joint Administrative Receivers (Office holder numbers 2041, 552, 2885 and 2882) of Cork Gudy Shelley House 3 Noble Street London EGZY TDC

ANTHONY CARRIMORE LIMITED

Registered number: 314918
Nature of buttiness: Non-trading
Date of Appointment of Joint Administrative
Receivers: 18 October 1981
Name of Person appointing the Joint Admini Christopher John Hughes, Christopher John

John Frederick Powell and David John Joint Administrative Receivers (Office holder numbers 2041, 552, 2695 and 2882) of Cork Gully Shelley House 3 Noble Street London ECZV 7DQ

AUTOLIFTS & ENGINEERING CO Registered number; \$15782 Nature of business, Non-Irading Date of Appointment of Joint Administrative Receivers* 17 October 1991 Name of Person appointing the Joint Admin-istrative Receivers: \$ 0 Warburg & Co Limited

John Frederick Powell and David John Receivers ers 2041, 562, 2595 and 2682) of Cark Gully Shelley House 3 Noble Street London EC2V 7DQ

CLUBS EVE has outlived others due to policy of fair play and value for money. Supper from 16-3.56 am Glamorous hostesses, exciting cabares. 185 Regent St, W1.071-734 0557 HADENE DEVELOPMENTS LIMITED

Registered number: 2030861 Trading name: Hadene Hire Centre Nature of Business: Property deve-plant hire services Trade classification: 23 Trade classification: 23
Date of Appointment of Joint Administrativ
Receiver(e): 11 Cotober 1981
Receiver(e): 11 Cotober 1981
Receiver(e): 11 Cotober 1989
Receiver(e): 12 Joint Administrative: National Westuniester Bunk Pic
N J Vooght and J M Iredele
Joint Administrative Receivers
(Office holder nos 6339 & 2104)

ABEL DEMOUNTABLE SYSTEMS LIMITED

systems
Trade Classification: 35
Cabs of appointment of Joint Administrative
Receivers: 17 October 1981
Hams of person appointing the Joint Administrative Receivers: S O Warburg & Co

Joint Administrative (Office holder numb Cork Guily Shelley House 3 Noble Street London ECZV 7DQ

TEC HYDRAULICS LIMITED

Barlow, John Frederick Powell and David John Stokes Joint Administrative Receivers (Office holder nos 2041, 552, 2895, and 2862)

Cork Gully Shellery House 3 Noble Street London EC2V 7DQ. YORK TRAILER HOLDINGS PLC

Registered number: 2253829
Nature of business: Molding company
Date of Appointment of John Administrative
Receivers: 17 October 1991
Name of Person appointing the John Administrative Receivers: 5 G Werbury & Co Limited
Christopher John Hughes and Christopher
John Bartow
John Bartow
John Administrative Receivent
(Office horder number 2041 and 562)
Cork Guilty
Shelley House
3 Noble Street
London ECZY 7DQ

YORK TRAKER INTERNATIONAL LIMITED

Registered number: 871196 Nature of Business: Non-tradir Date of Appointment of Joint Receivers: 18 October 1991 rverse: 16 October 1997 a of Person Appointing the Joint Admin-fve: 5 G Warburg & Co Limited Hopher John Hughes, Christopher John Cork Gutly

18 October 1991 Name of Person appointing I Istrative Receivers

Christopher John Hughes, Christopher John Barlow, John Frederick Powell, and David John Stekes Joint Administrative Receivers (Office hol numbers 2041, 552. 2695 and 2692] of Cork Gully Shelley House 3 Noble Street London ECZV 7DQ

TEC TRANSPORT EQUIPMENT & COMPONENT'S LIMITED

Registered Number: 684244 Nature of business: Manufac Nature of business: Manufacturer of trailer acles and suspensions. Trade classification: 35
Date of Appointment of Joint Administrative Receivers: 17 October 1991
Name of Person appointing the Joint Administrative Receivers
S G Warburg & Co Limited Christopher Joint Hughes and John Frederick, Powell Johnt Administrative Receivers (Office holder numbers 2041 and 2995) of Cork Gutly Shelley House 3 Noble Street
Lendon ECSV 7DQ
GMIA HOSSERY LIMITED

GHIA HOSLERY LIMITED

Registered Number: 1763081
Nature of business: Masiery Manufacturers
Trade Classification; 08
Date of appointment of joint receivers
18 October 1991
Name of person appointing the joint administrative receivers Name of person approximative receivers
Midland Bank Pick, YNN ROBERT BASLEY and
STEPHEN JONATHAN TAYLOR
JOINT Administrative Recievers
and and 78(21) Abecus House 32 Frier Lana Leicaster LE1 SRA

TRANSPORT (UK) LINKTED

Registered number: \$40713
Nature of business: Supplier
Date of Appointment of Jolof Administrative
Receivers: 17 October 1991
Name of Person Appointing the Joint Administrative; S O Warburg & Co Limited
Christopher John Hughes, Christopher John Joint Administrative Receivers (Office holder nos 2041 and 552) Cork Guily Shelley House 3 Nable Street London ECZV 7DQ.

YORK GROUP SALES LIMITED

Registered number: 2097849
Niture of Susuness: Non-trading
Date of Appointment of Joint Administrative
Receivers: 18 October 1991
Name of Person Appointing the Joint Administrative: S G Warburg & Co Limbed
Christopher John Hughes, Christopher John
Barlow
Lehn Condition John Frederick Powell and David Jehn Stokes Joint Administrative Receivers (Office holder nos 2041, 552, 2696 and 2662) Cork Gully Sholley House 3 Nobis Street London EC2V 7DQ

APPOINTMENTS ADVERTISING appears every

Wednesday & Thursday (UK) & Friday (in the International Edition only.)

Ex-miners still held by Merseyside police

By Ian Hamilton Fazey, Northern Correspondent

TWO OF the 11 people arrested Friday, as was Ms Collette on Friday over alleged townhall corruption in northern England were still being questioned on Merseyside yesterday after police successfully applied to magistrates to hold

them until 3pm today. The other nine have been freed on police ball. No charges have yet been made.

Police confirmed yesterday that the two were Mr John Dunn, former deputy leader of North East Derbyshire District Council, and Mr William Lane. The men, former mineworkers. are directors of Forward Planning, a public relations consul-tancy in Chesterfield, Derby-

Mr Derek Hatton, the former deputy leader of Liverpool City Council expelled from the Labour party for snpporting Militant, was also arrested on Darcy, named yesterday as company secretary of both Forward Planning and Settleside, Mr Hatton's falled Merseyside

PR consultancy.

Mr Hatton is due to appear before Liverpool magistrates tomorrow on four charges of conspiring to defraud the city's ratepayers over land sales. With him facing one charge will be Mr Roy Stewart, a prop-

erty developer who was also arrested and released on Fri-Also appearing will be Ms Hannah Folan and Mr John Taylor, both former Liverpool councillors, and Mr John Monk, Mr Hatton's

Charges against them arose from police raids a year ago, which eventually led to 23

Retail sector advertising forecast to increase

By John Thornhill

RETAILING currently represents one of the few growth areas of advertising expenditure and the industry will increase its promotional spending next year in spite of the recession, according to a report from Verdict Research, the

retail consultancy. The report forecasts that expenditure on media advertising by retailers is likely to rise from £480m this year to £500m next year as companies attempt to defend the value of their brand names. This will represent about one eighth of total expenditure on advertis-

ing in the UK.

Food retailers will be the biggest spenders, accounting for
about one fifth of total retailing expenditure.

Tesco will spend £26m this

year on advertising, while J. Sainsbury will commit £11m to promoting own-label prod-Verdict however, points out

that as a percentage of sales,

that as a percentage of sales, the grocers' spending on advertising lags well behind that of other retailing sectors.

Home shopping companies, for example, will spend a proportionately far higher sum — committing £55m this year.

Do-it-yourself is another sector with a big advertising spend, and Verdict predicts that expenditure will increase by one third to £55m by 1993 as demand recovers in line with the the housing market. Verdict on Retail Advertising Verdict Research, 112 High Hol-

born, London WCIV 6JS. 2695.

THE FINANCE COMPANY OF SOUTH AUSTRALIA LIMITED US \$ 100,000,000

GUARANTEED FLOATING RATE NOTES DUE 1994 Notice is hereby given that, in accordance with the provisions of the above mentioned Floating Flate Notes, the rate of interest for the six

months period from October 28, 1991 to April 28, 1992 has been fixed at 5.75% per annum. The interest payable on April 28, 1992 will be US \$ 7,307.29 in respect of each US \$ 250,000 Note.

BANQUE INTERNATIONALE A LUXEMBOURG Societé Anonyme FISCAL AND PRINCIPAL PAYING BANK

agly limb an entising



Think small.

Our little car isn't so much of a novelty any more.

A couple of dozen college kids don't try to squeeze inside it.

The guy at the gas station doesn't ask where the gas goes.

Nobody even stares at our shape. In fact, some people who drive our little flivver don't even think 32 miles to the gallon is going any great guns.

Or using five pints of oil instead of five quarts.

Or never needing anti-freeze.
Or racking up 40,000 miles on a set of

tires.

That's because once you get used to

some of our economies, you don't even think about them any more.

Except when you squeeze into a small parking spot. Or renew your small insur-

ance. Or pay a small repair bill.
Or trade in your old VW for a
new one.

Think it over.

HIS IS the power of newspaper advertising. In 1962 "Think Small" grabbed America by the scruff of the neck. Almost single-handed, it lent an ugly little automobile a charm Americans found irresistible. (In 1949, VW sold 2 cars in the States. In 1962, 185,000.) Done well, newspaper advertising screams out for attention. There is nothing it cannot sell, not even a bug. Think big. Advertise in the newspapers.



This advertisement was placed by the Newspaper Publishers Association.

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CE COMPANY OF CTRALIA LIMITED 123,000,000 TWO FATE NOTES DIE 18

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Bangkok hotel plan

BOVIS (THAILAND), a wholly-owned subsidiary of the P&O company Bovis International, has been appointed project manager for the construction of a 500 bedroom hotel in Bangkok. Theiland coeting Bangkok, Thailand, costing around £60m.

The client is Taksin Hotel-Holding Company, a joint ven-ture company formed between Tomen Corporation of Japan

and Thai partners. Scheduled to open in May 1995, the 20,000 sq metre hotel will have 17 conference suites, four banqueting suites, eight restaurants, tennis courts and parking for 400 cars.

Sea outfall

CHRISTIANI & NIELSEN has been awarded the contract for the construction of invergo-wrie outfall at Dundee. The project is valued et £2.7m and comprises the construction of twin 762mm diameter weight coated steel pipelines 1,020 metres long. The offshore secpartly buried except for 230 metres which are supported on

Mixed batch

ALLEN has won orders worth in excess of £9m through Allen-Fox Construction and Allen Building. Projects include a multi-trade store at Croydon for Makro Properties, a health and leisure centre in Manches ter and work at Wigan's Sover-eign Business Park.

Industrial park

The southern regional office of WILLETT has been awarded two contracts at The Brook-lands Industrial Park with a value of over film. The first, valued at £675,446, for Brooklands Estates, is to construct a block paved access road on Heights Spine Road. The second, worth £400,000, for Trafaigar House Brooklands, is for various small works.

CONSTRUCTION CONTRACTS

Northampton sports complex

Building contractor R M. DOUGLAS CONSTRUCTION has been awarded a £16m contract to build a multi-sports complex and stadium for Northampton Borough Council.

The two-part contract covers the preparation of the former landfill site and the construction of a 14,500 capacity all sea-ter stadium with turfed infield, international standard athletics track and management suites, together with an adjoin-

ing sports hall and all-weather hockey stadium.

Advance works are due to begin this month and will involve the excavation and removal of 250,000 tons of domestic and commercial waste using specialised methane monitoring and containment procedures. The excavated area will be brought up to foundation level with 100,000 cu metres of imported common fill material.

Construction work will begin in February. The stadium will be based on a cast in situ concrete base slab, designed and built by Douglas Construction, with precast concrete super-structure and terracing. The seating will be fully covered by a tubular steel roof clad with pvc coated profiled metal

Work is due for completion in time for the 1993-94 football

Upgrading Docklands Light Railway

CIVIL including piling, being carried out from marine craft. All the truction, work will be undertaken with ENGINEERING, a division of John Mowlem construction, has started work on a further the minimum disruption to rail £8m project for the Dockiands Light Railway. The work com-prises structural modifications between North Quay and Canary Wharf which will add services. The scheme is part of the DLR's ongoing programme two further tracks and the reconstruction of West India Quay station to enable this section of railway to handle a

designed to improve operational flexibility and handle the number of passengers projected when the Canary Wharf development is fully occupied. Completion is scheduled for Easter 1993. The new structures and track across the North Docks will result in part of the work. Mowlem South East has won the first phase of a £8m scheme

tract will provide a new pedes-trian link between the stadium and Wembley Park underground station.

Work will comprise the

demolition of the pedestrian subway, the regrading of the northern end of Olympic Way and building an 18 metre wide subway under Bridge Road. This will have piled abutment walls and composite steel and concrete bridge deck. The area underneath the deck will be excavated once the bridge has been installed.

Major Government maintenance order

TARMAC CONSTRUCTION has been called in by the Depart-ment of Social Security to give it a helping hand with its

buildings.
Tarmac Management has signed a maintenance and management contract with the Department of Social Security, worth 19m a year, to look after 50 of its buildings.

All Department of Social Security buildings in a region stretching from north of the Thames to the Wash, and from east of Oxford to the North Sea come within the contract,

which is to run for three years. Tarmac Management has also been awarded a £1m fitting out contract at Trafalgar

Square, for Dillons bookshop.
Another well-known London
landmark figures on Tarmac
Construction's latest list of contracts - the Old Kent Road. A £2m schema for widening and improving the Old Kent Road has been awarded by Southwark Borough Council. Other recent contracts

awarded to the company include £1.5m worth of reconstruction work on the M4

between junctions 12 and 13 for Berkshire County Council; a two-storey office block at the Royal Signals Radar Establishment at Malvern for the Ministry of Defence (£773,000) and the fitting out of London & Carlton offices at the Birmingham Business Park et Caleabil ham Business Park at Coleshill at a cost of £440,000. The contract housing divi-

sion has won orders for refurbishment of houses at Carlisle for Haig Homes, (£320,000) and building 15 dwellings for the Family Housing Association at Aston, Birmigham (2700,000).

Variety of projects for John Lelliott

The JOHN LELLIOTT CONSTRUCTION GROUP has been awarded a total of £16m worth of contracts, including the £5.4m fitting out of two

Safeway supermarkets, both of which were built by the Group. One is a £3m contract, which includes shop fitting and the installation of a lift and travelator, for Safeway at the junc-tion of Horn Lane and King Street, Acton, W3. The other is a £2.4m project involving shop fitting, M & E and refrigeration installation at Lake, Sandown on the Isle of Wight.

Other fitting out work

includes a £1.6m office accom-modation project at Barnards Court, 90 Fetter Lane, EC4 for Bird & Bird; the £1m fitting out of three Index Catalogue shops in High Road, Ilford, Vicarage Field, Barking, and Princes Mead, Farnborough, Hants; the 2550,000 fitting out of two Abbey National offices in High Street, Epping and Green Lane, NWI; the £500,000 fitting out of an oncology laboratory and refurbishment of the main

entrance at the Royal Free Hospital, Hampstead, NW3,

and the £400,000 fitting out of a

shell to form a C & A retail

unit at St Nicholas Centre, Sutton, Surrey. General contracting work

includes the £800,000 refurbishment of 31 Dover Street, W1, for Omniterra Properties; the £750,000 construction of a kitchen at the Cavalry and Guards Clnb, Piccadilly, W1; the £750,000 building of leisure facilities and office fitting out at Harefield Road, Uxbridge for BP Engineering: the £530,000 refurbishment of class rooms for Kings College choir school and the £500,000 construction of a store shell for Iceland in Newport, Isle of Wight.

APPOINTMENTS

New head of Pilkington's German subsidiary



Mr Erik Ehrentraut (pictured above) has been nominated as head of the management board of FLASHGLAS AG, PILKINGTON'S German flat and safety glass manufacturer. He succeeds Mr Gunther Krussmann who has retired after 36 years of service. Mr Ehrentraut, who has a law doctorate, studied at the universities of Frankfurt and Hamburg. He joined Flachglas in 1973 and has beld various positions in accounting. taxation, insurance and risk management.

N M ROTHSCHILD and Sons (Denver) has recruited Mr Ron Vance from NEWMONT MINING where he was vice-president for project development and marketing. He is to become director with responsibilities for treasury

services. Before joining Newmont Mining Mr Vance worked for Amax and the Bunker Hill Company. He has been an alternate director of of the World Gold Council and chairman of the planning committee of the Gold

■ Mr Hendrik Borggreve has been appointed managing director of KLEINWORT BENSON DEUTSCHLAND at their new office in Frankfurt. He is to lead a team of eight which is set to expand over the coming year. The branch is principally involved in cross-border finance including mergers and acquisitions and structured finance.

■ Mr Peter Schweinhage has been promoted to managing director of DEMINEX UK OIL AND GAS to succeed Mr Detley Lehning who is taking over as general manager of DEMINEX SYRIA which is based in Essen, Germany. Mr Schweinhage has been with the Deminex group for 21 years and held a number of senior

management positions, mostly

recently being in charge of its Syrian and Indonesian ■ Mr John Toyne as executive director of the TIBBETT & BRITTEN GROUP after successfully integrating Lowfield Distribution which was acquired in September 1989. Mr Brian Williams is joining the board next month to take responsibility for the



■ AMERICAN AIRLINES has announced personnel changes in its European and UK airport operations. Mrs Barbara Fesser (pictured above) is to become managing director for its European operations with responsibility for 12 airports and 206 flights a week. She replaces Mr Steve Leonard who joins the airline's cargo operations at its Dallas/Fort Worth headquarters.

Mr Peter Atkinson has become chief executive of GKN' vending division. Aged 34, be was formerly a director and general manager of ACS Coffee Services which he joined in July 1988 after seven years in a marketing role at Johnson Wax.

■ Mr Keith J.Swan is to head the European office of JOHN D.MC KEOWN & CO., a member of the New York Stock Exchange. Based in London be will be responsible for working with clients to provide a direct dealing service between Europe and the New York trading floor.



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PRESENTATION. A SLIDE MISTAKES CAN RUIN

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The FT proposes to publish this survey on

November 7 1991. 54% of Chief Executives of

Europe's largest companies read the FT. If you want to reach this important audience by advertising in this survey, call Patricia Surridge on 071 873 3426 or fax 071 873 3079.

FT SURVEYS



Many of Europe's leading publishers and printers share the same opinion on one basic point. They have all decided to print their newspapers and magazines on paper from one and the same manufacturer: SCA.

A company with its roots in Sweden, which has steadily expanded to become the second largest forest industry in Europe.

Today, SCA is far from being a conventional forest company. We invest regularly in the development of more value-added products in the areas of graphic paper, packaging and hygiene. Two thirds of our sales consist of consumer-oriented or converted

An example of our development is provided by our two billion Swedish kronor investment in a completely new production line for LWC paper at SCA in Ortviken - a model plant from an environmental point of view. This is where we produce GraphoCotena a light-weight grade of paper with excellent printing characteristics, for weekly magazines and quality advertising print.

All of this means that SCA Graphic Paper can offer a comprehensive range of wood containing printing paper, standard and improved newsprint, SC paper and LWC paper.

Our highly-processed products are based on our extensive knowledge of the countless ways in which wood fibre may be used, coupled with SCA's forest resources which represent the biggest private forest holdings in Europe.

In 1990, we acquired the British company Reedpack. This makes SCA one of the leading processors of recycled paper and the second largest waste paper merchant in Europe. In fact, no less than half of our product output is based on recycled paper.

In our opinion, our forest resources should be used where they do most good - in more value-added products. And that's an opinion that our customers agree with!



The SCA Group conducts its activities through five business groups.

The consumer-oriented business groups are Hygierie (Mölnlycke), with annual sales of SKr 12bn; Packaging, SKr 11bn; and Graphic Paper, SKr 7bn. Raw material resources are managed by the business groups Forest and Timber, SKr 4bn, and Energy, SKr 1bn, if you would like to know more about SCA Graphic Paper, please call +46 (60) 19 40 00; if you have questions about the SCA Group, please call

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THE WEEK AHEAD

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WISTAKES C

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Looking for evidence that US is moving from recession

ECONOMIC event of the week will be the US gross national product data for the third quarter. This will be keenly scanned for evidence that the ecunomy is moving out of

The second quarter preliminary estimate of a rise of 04 per cent was subsequently revised down to a fail of 0.5 per cent, implying that the US was in recession for the whole of the first half of the year.

But economists expect the new data tomerrow to show that the recession has defirately ended, with a third quarter growth rate of between 1.1 per cent and 3.5 per cent, even though consumer demand has hardly been bounding ahead. Such a rise could help restore confidence in the economic record of President George Bush, following a spate of disappointing indicators

in the UK, attention will focus on Thursday's Mansion Bouse speech, which Mr Norman Lumont, the chancellor. might use to review sterling's ut the European exchange rate

Tomorrow's quarterly industrial trends survey from the Confederation of British Indus

VENTURE CAPITAL The FT proposes to

publish this survey

5 November 1991 The FT is read by more directors and managers in the UK than any other daily newspaper. If you would like to reach this important audience please contact

James Pascail Tel: 071-873 4008 or Fax: 071 873 5078 Data ware BHRC Business Survey 1990

FT SURVEYS

US GNP growth

% change over preside year

try will be an important guide the state of economic recurery in the UK Other events and statistics,

1991

1989 1990

Source: Littletream

with median market forecasts from MMS international, in brackets, include: Today: Basie, Switzerland, spe cial EC central bank governors' meeting to discuss draft statutes for a European Monetary Institute, Luxembourg, special EC foreign ministers meeting on political union. US, September Treasury hudget. Japan, September industrial production (up 0.2 per cent on month), retail sales (up 2.6 per

THAT bastion of the British

high street, Marks and Spen-

cer, is due to report its interim profits on Wednesday. The food

and clothing retailer is expec-ted to come in with static pre-

The company's followers -and many more besides - will

be keen to hear what the chair-man, Mr Richard Greenbury,

has to say about future pros

pects on the high street. Few

retailers have noticed much

improvement in Irading condi-

tions and M and S is unlikely

On the same day Reed Inter-national, the publishing and

information group, will reveal a sharp fall in profit - from £109m to about £80m - for the

six months to September as the

recession refuses to go away. Mr Peter Davis, Reed's chair-

man and chief executive, is

to prove an exception.

tax profits of around Caom.

RESULTS DUE

cent un vear). Australia, manufacturing input price index. Tomurrow: Madrid, Spaln, President: Bush and Gorbachev meet before the upening of the Middle Rast peace con-ference. US, 3rd quarter advance gross national product (up 2.6 per cent), advance GNP dellator 13 per cent), 3rd quar-ter civilians employment cost index. October consumer confidence index (7) per cent). UK. September final money supply data, Japan, August leading diffusion Index, Canada, September inilustrial product price index (duwn D.1 per cent), Sep-

Carnings.
Wednesday: UK, National Economic Development Council meets. US, September personal uicome lup 0.4 per cent), per-sonal consumption expenditure (up 0.4 per cent). September new home sales (flat). France, final consumer prices index tup 0.2 per cent on month, 2.6 per cent on year), Australia, 3rd quarter CPI (up 0,6 per cent on quarter, 3.3 per cent on year), manufacturing output price index. Canada, August Thursday: UK, Queen's speech,

pects. There may be some mod-

est signs of recovery in adver

tising for consumer magazines

and regional newspapers, but

despite whal the politicians

say there are few signs yet of a

Political factors surrounding

the forthcoming £5bn sale of government shares in BT are

likely to dominate the publica-

tion of the company's quar-terly results un Friday. These

Include the possibility of a

Labour government and specu-

lallon on how tough a line Oftel, the regulator, will take.

for the second quarter to the end of September range from

£815m to £840m, compared with

Forecasts for pre-tax profit

sustained upturn.

tember raw materials price

index, August employment

otficial opening of Parliament Mr Norman Lamont delivers Mansion House speech. US September factory goods urders (down t.5 per cent), shipments, October agricultural prices, money supply for week to Oct 21, initial claims for week to Oct 19. Japan, September construction starts, housing starts (duwn 22.8 per cent on year), construction orders. Australia, Sentember current account (seasonally adjusted A\$930m deficit), building approvals (up 1 per cent). Canada, August gross domestic product at fac-tor cost (up 0.2 per cent). Friday: US, non-farm payrolls (up 25,000). October manufac-

(6.8 per cent), hourly earning tup 0.2 per cent), average wurkweek, October NAPM index (54 per centi, September leading indicators (flat), construction spending (down 0.2 per ceut). Japan, September current account and trade balance, October forex reserves. During the week: Germany, October preliminary cost of living (up 0.3 per cent on month. 3.5 per cent on year). Italy, October CPI,

turing payrolls (flat). October

elvilian unemployment rate

Rachel Johnson

also expected to sound a note ures limply because the second of caution about future pros-

quarter of last year included £13m in property profits. ICI announces its third quarter results on Thursday and profit forecasts range from £t80m to £205m. Attention will focus on how quickly the bencfits of the company's cost-cutprogramme have been working through.

Analysts were this week hastily downgrading their forecasts for interim results of Thames Water, due out on Thursday, because they had underestimated the impact on revenues of the recession in the south-east of England.

They now expect the pre-tax line to come out at about £118m, not much higher than last time's £113m - although a £791m in the same period of last year. The underlying increase is better than the fighefty increase to about £237m, from £212m, at the full-year stage is still in sight.

UK COMPANIES

TODAY COMPANY MEETINGS. Control Securipes, The Watermil Hotel, J.3 Montages Street, W.C., 12:00 Gi Japan Inv. Trust &

Gold Greenless From Street, S2 Dean Street, W., 11 C0 Sinctor Goldamith, The Institute of Orectors Lipri, 2.W . 10 10 Th European Grown Trust Mermald House, 2 Pusidle Dock, F.C., 12.45 GOARD MEETINGS Pinale: Balton

owland inv Borry Birch & Noble Hiacks Lossure Channal Tunnel Inve

Esiate, Learnin Hoad, Boester Crott 10 00 Awar & Mercanthis Smaller Co & Trust, New Connerght Rouns, Great Queen Street W C. 12 00 BOARD MEETINGS Gancor
Hatmony Lessure
Hatmony Lessure
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Acorr, Computor
Arone
Grafford Property Trust
Intl Business Comma
Radiamac
Ratson Inv. Trust
Soafield

Turn'l Corp attimorativ COMPANY MEETINGS Arcadian Intil, Apollo House 50 New Bond Street, W., 1230 Gootnead, Chaucer Ira Control August Paul

Estate, Leumon Road,

EWEDNESDAY OCTOBERSO COMPANY MEETINGS Bryanz, Cranmore House, Cranmore Boulevard, Solik

Cartmoor Inv Tat 2 4p Co d 4 s RP1-Linked Deb 2905 3 Strpt

West Midlands, 12.15 Oceanics Chartered Insurance Institute, 20 Aldermanbury, E.C., 10.33 St. Davies inv. Trust, Queen'p Chambers, 2 North Street, Newport, 12 30 Serdar, Cedar Court Hotel, Sirida: Coder Court Hotel, Walet etc., 17 00 Fr.ton Europia, Sk.onera' Halt, 81; Dowgato Hit, E.C., 11,30 Wanerg'ate into, The Farmers' and Factorers Levery Halt, 3 Coder Street, E.C., 10,50

Finals: Cowan de Groot Leveração Opportunity Trust

Aberloyle Hidge., The Richmond Hill Hotel, Richmon Hill, Richmond, 10 30 Astra Hidga, New Contraught Rooms, Great Queen Street, W C., 10 30 BOARD MEETINGS:

Interiesia: Abbust New Europeen Inv. Cooper (Frederick) Cultens Ferguson Inti Mansa & Spencor Reed Inti Usnor-Walker Walton William #THURSDAYOCTOBER31 COMPANY MEETINGS.

Downing & Mills, Chamber of Commerce 75 March Dowding & Mills, Chamber of Commerce, 75 Harborne Read, Birmingham, 12 00 Estates & Agency Hidgs., Institute of Directors, 116 Pail Mail, S.W., 12 00 Fleutech, The Hallun Hotel 5 Hallen Street, S.W., 12 00 Lincar, Station Road, North Hytcham, Lincoln, 10 30 Palmerston Hidgs, New Connaught Rooms, Covert Garcen Exhabition Centre, Great Queen Street, W.C., 10 30 BOARD MEETINGS. BOARD MEETINGS.

Smart |J| Interime:

Derwent Valley
Fleming Universal Inv
Thames Water
Tullow Oil

WB Inds. Wemterd invs. mfRID AYMOVEMBER 1 COMPANY MEETINGS: Allied Leisure, The Mega 142-144 Streatham Hill, 142-144 Streatham Hill, Streatham, S.W., 11.00 Cornwell Parker, Waldorf Hotel, Aldwych, W C., 12:30 First Spanish Inv. Trust, 48 Chiswell Street, E.C., MAI, Glaziers Hali. 9 Montague Close, S.E. 12 00 BOARD MEETINGS: Pinets: BBB Design Manganese Bronz Interims: BDA Hklgs Prowting RIT Capital Partners TDS Circuits Upton & Southern

Company meetings are annual

general meetings unless otherwise stated

DIVIDEND & INTEREST PAYMENTS

BY TOMORROW Bank of News Scotta 254a Bank Darrice 2730 Institute De Credeta Official Stat CLE File Tales Met 1992 \$376.44 London Fortating 76,559 M12 Institutements 19 Soverfield Recycle

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Seb Units 11 1992 5pc
F 8 C Imy Tet 775 Units Lin. 88/93
35pc Pop Pop Lute 2 to Waterman Parbutrahip Ip Water City of London Props Citip # THURSDAY OCTOBER 31 Acceptant of Section 19 Appendix Of Section 1

3.5pc Forte 10½ % 14tg Deb 91/26 5.25pc Do 7¼ % 131 Mtg Deb 85/91 DO 74 "s 191 Mig Den 86/91 3/625pc.
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Socialists

Rockwara 714% Criv Red 2nd Pri 3 625pc. SCEALITY 68cm. St Davide Inv. Tet. 9.1p Scottish Inv. Tet. 4% Perp. Deb.

Do T P** 151 Mig. Deb 6974 3.4cc. Seegram Distillers 12*1 % Deb. 2012 8 1675cc. Shaw Carpets Pig % Deb. 86/93 4.55cc. Stires Enry 4.1p. Sundard Charlered 7p. Suevart & Wight 105p. Sunset & Vine 2p. Swattowfield 2.2p. Swattowfield 2.2p. Swattowfield 2.2p. Trace P J. M. B. S. Fourth Financing Isa. 5 Apr. 2028 C286 92. Do Frast Brancing Aug. 2030 22/5 62. Do Thurd Financing Fast pay Nts. fee 4A Oct. 2028 5288 82. 4A Oct. 2029 C Do. Slow Pay Mrs. Ise 48 Oct 2029

TR High Income Tat 1 4p TT Group 10-3 to Cnv Red Pri 1907 5 4375p Templation Smergang Miks. 1°c Cnv Uns. Ln. 2001 9 5p Tübbel & British J 4p Tübbel 1 5 British J 4p Tibbet & Briten 3 49
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Torday & Carriste 1 59
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Marx 4 19 7 2 A Pril 1575p
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III PRIDAY MOVEMBER 1

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ELF LIK 12 % ~ a mm.
& 125pc.
EMG Ip
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3 75pc.
Exchanger 3% Gas 90/95 1 Spc.
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Commands NV 137% En 2007 (Reg | 6 745pc, Do 11.31% Ln, 2007 (St | 5.855pc, Clare 7 ½ % Uns. Ln 85%5 1.9375pc. Guaranteed N. Ireland 4½ % Red. Bda. 2.25pc. Hallias Bidg. Soc. Pag. Rate Mis 1937 (5.78.73) Hardys & Hensons 5% 1st Pri 1,15p Do, Ird. 4% 1st Mg. Deb, 2pc, Hawin (J.) & Son (Fenton) 1p Highcroft Inv. Tel. 1,85p Intl. Stock Exchange of UK & Rep.

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Patinis 17 7t Sanderson Murray & E. 3p Scottish inv Tat 3½% Pts. 1750 1799 Do. 3.55% Ptd. 1925p Do. 4.55% A Pri 2.275p Sema 1p Sheetbank Prop. Tet, 6% Chy Ptd. Sheatharm Frag. 100, 200 St. 200 St. 200 Per. 2 6250 Southwestern Bell 71cts
Transury 61c % Lr. 85/98 3.375pc.
Union lad 71c Per 2 45p
Varity Hodgs. 71g % Deb 87/92
3.75pc.
Vinibread 41g % 1st Prt.
4.75pc. Whithread 4½ % 1st Pri, 1 575p Do, 7% 3rd Pri 2,45p Do, P% 3rd Pri 2,1p William (James) 475p Young & Co'a Browery 7 ½ % 1st Mg. Deb. 86/81 3,625pc **ENATUROAY NOVEMBER :** Cornwell Parker 3.9 Do. A NV 3 9p Fisher (James) 2p

CONFERENCES

TRADE FAIRS, EXHIBITIONS &

OCTOBER 31 -NOVEMBER 1

Fav. 011-925 2125

World Mobile Communications Examines parket, technical and repulatory more: as well as the challenge Enquirier Financial Times Conference

LONDON NOVEMBER 4 - 5 COMPUTER ASSOCIATES UK CUSTOMER SYMPOSIUM This Conference is for Clients and Business Partners of Computer

Associates, the Worlds leading software company Sessions will cover the Luest software volutions for managing and developing adornation technology within the will include solutions from Maintenne Mid-Range and Micro Computers. International Conference Centre, Contact Mrs Jern Lomes Tel: 1753 577733. FAS: 0753 825464

NOVEMBER 5 TRADING WITH AND INVESTING IN TURKEY Speakers from Tarkish and U K Governments, bank and private sector will introduce the advantages of this

Ro hard Kemp 051 718 5999 NORTH WEST

NOVEMBER 5-7 Computer Graphics '91 alvantages of computer graphics technology at CG91. An exhibition and conference teaturing bysiness and

ratity. Call Lynne Davey on 081-868 NOVEMBER 6

Survive! 3rd Appeal Conference The latest news and views on the keelopments in the law, seftware and open systems. Keynote speaker, Emma Victorism MP and examples from Angela Bunt, Survive! The Disaster Recovery Group. Tel. 081-871 2546.

LONDON

NOVEMBER 6 PREPARING FOR THE UPTURN 1 lovels Bank/ECGD/International Factors. prompt payments fruit buyers nicriseas and at home, managing increasing sales. Venue: purtymouth Chamber of Curt 11.00 in 14.00. Free of Charge. Contint. Max Boceza on 0705 244111 PORTSMOUTH

NOVEMBER 6 & 7 The Emerging European Tax System Keynote speakers will include Mrs. Christiane Serivener, Mrs Gillian Shephard, MP and Mr Marity can Amelsycort. Enqueries: Fatancial Times

NOVEMBER 8 PREPARING FOR THE UPTURN Lloyds Bank/ECGD/International Factors How to make the best of apportunities to crome by improving liquidity, securing prompt payments from buyers overseas and at bonne, managing increasing sales

NOVEMBER 11 W.D. GANN -Breakthrough Trading (Stucks, Ontions and Commodities) Seminar with the World's leading Authority on works of W.D. GANN

information pack. Tel: 0728 73413 Fax: 0728 73656

Doing Business in Eastern pointly by international insurance and Alexander Howden Reussurance

NOVEMBER 12 Outsourcine L.T. A Critical Assessm

factors which contribute to the such arrangements. Contact Business Intelligence Tel. 081 944 1541, Fax 081 944 0332 LONDON

NOVEMBER 12 PREPARING FOR THE UTTURN prompi payments from buyers over Venue: Firtwick Manor, 18,30 to 20,30

PORTSMOUTH

NOVEMBER 12&13

11 00 to 14 00. Free of Charge, Contact Lynn Hantaty on 0647 230023

forecasts with uncornty accuracy Consuct: Stewart D. Thallon, For free

LONDON NOVEMBER 11

Europe: An Insurance Perspective at CBI Conference Centre, Centre Point, 103 New Oxford Street, London WC1A IDU commencing 9.30 am. Sponsored Brokers Ltd. (Details T L May C BE. Tel: 071-621 99901 LONDON

The contenence is specifically designed in belp sense IT and business managers assess the potential value of outsourcing to their organisations and identify the

Lloyds Bank/ECGD/International Factors How to make the best of opportunities to Free of Charge, Contact Pauline Coverdule at Lutun Chamber of Commerce on 0582

Fax: 071 925 2125

Fax: 071 240 7735

NOVEMBER 12-14 Computers In the City DARLINGTON

- IT PRICRITIES

IT industry from both the user and supplier side. For an informative brochure phone: 061 236 3220 LONDON

THE 1991 AMEX BANK Trade Blocs · Soviet and East European Review and The Royal Institute of onal Atlans. To be held at Chatham House, 10 St Jos Landon. Enquiries RILA Conferen Tel: 071 957 5700, Fax: 071 957 5710

NOVEMBER 19 An International panel of experts will ipdate you on the latest Mig Sematriptan, Lehman Brothers on the Development, Contact: Stephenic Tel: 071 412 0141

NOVEMBER 19 RISKS IN BANKING Jales Krol), Broan Quinn, Wulfgang Rieke, Brian Smouths, Soomson Journal Europe and S J Berwin.

International Conference on Information Technology in the Workplace Institution of Electrical Engineers

(IT) on the individual at the workplace will be decreastrated and discussed as will the costs and benefits of TT applications at the organisational level. Enquiries to: Ju Gordon Conference

The foremest IT event for the financial services wholesale banking and Insurance sectors. Comprising a senior level conference and an exhibition of over 150 leading-edge technology suppliers

NOVEMBER 14 NCC MEMBERS CONFERENCE affords an opportunity to listen to some of

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Latest Developments in Hendache

RECOGNITION AND CONTROL Contributors include: Geoffrey Bell. Cityforum, Touche Ross, Wall Street Contact: Marc Lee Tel: 10225) 466744 Fax: 102251 442903

NOVEMBER 19 COMPETING IN THE 1990s Royal Garden Hotel, London, METCOM Annual Conference chaired by Lond Trefgame: key speakers Rolls-Royce chairman Lord Tombe, ASEA Brown Eric Drewery an consultant Ross Murtiboys, Session (2 pm

NOVEMBER 20&21 1991 National Conference on Integrated Polintion Control for

the Process Industries The economic realities of IPC regulations the pitfalls vs the potentials. Convert environmental demands into financial opportunities. Contributions across the ward from government and regulating leaders in the industry. Contact: Stephenie Hodder HR Scientific & Technical

LONDON **NOVEMBER 21** Investor Relations Education Semina Covers the function of investor relations and the development of a cutting-edge tovestor relations programme. Speaker ICI, Smith New Court, Gartmore, Commercial Union; sponsury: Investor Relations Society. Connect: Bass Associates, Tel:071 497 2225, Fax: 011

LONDON **NOVEMBER 25** REGULATION: POLITICAL ECONOMIC AND CORPORATE STRATEGIC DIMENSIONS and Affairs and The Stratego ing Society. To be held at Chatt Planning Society, Tel: 071 636 7737:

NOVEMBER 25&26 IT OUTSOURCING AND FACILITIES MANAGEMENT A review of IT Outsourcing and Fac ment in the 1990's by some of the ing experts to the marketple Conference Organisers: Contact: St Hodder, IIR Scientific & Technical ers: Contact: Steph Division. 071 412 0141

LONDON NOVEMBER 26 CORPORATION TAX This one day course will provide a comprehensive review of recent major changes; how to keep your corporate tax liability to an absolute managem; and how to reclaim some of the taxes already paid Contact: Quorum Training Ltd Tel: 07t

NOVEMBER 26 & 27 Managing Financial Risk This workshop is an intensive, practical course aimed at those who wish to and the principles and practices of financial risk management.
Enquiries: Financial Times Conference Organisation, Tel: 071-925 2323 Fax: 071-LONDON

NOVEMBER 28 ACTIVITY BASED COSTING A one-day course at LSE intended for people who wish to consider overhead trol. Organiser: Dr Miles Gietzmann, Contact Nicola Menkin

NOVEMBER 28&29 KNOW YOUR COMPETITIORS Competitive Intelligence & Analysis Cufé Royal, 68 Regent Street, London WIR 6EL. Contact: Patricia Doquard. EMP Intelligence Service, Tel: 071 48

Tel: 071-455 7227.

5665 Fax: 071 935 1640

DECEMBER 4&5 RELIABLE SAMPLING Assurance Issues. The legal and financial implications of recent pollution and contamination incidents indicate the ortance of reliable chemical

sampling. This conference, backed by the Laboratory of the Government cher and the Association of Public Analyst covers the latest legislation, standards Contact: Peter Russell or Diane McGraw, Sire Communications Lad

DECEMBER 3 DECENTRALISING LT. SERVICES

The Conference asse non of IT services and exa the problems and issues involved. neluding aligning IT organisati business structure, and the peed for new ces. Contact Business Intelligence. Tel: No. 081 944 1591 Fax No 081 944 0332

LONDON

DECEMBER 5-6 BUSINESS INTELLIGENCE HOW TO GAIN AND RETAIN A How new approaches to inform competitive thrusts and develop wa business strategies. Speaker: Mr Ian Gordon. Contact Customer Services, Frost & Sullivan Ltd. Tel: 071 730 3438. Fax: 071 730 3343. Quote ref 762ft LONDON

DECEMBER 9

SHAREHOLDER VALUE **CREATION - A PRIORITY FOR** THE FUTURE This one day course will show how Shareholder Value Analysis allows a company to identify opportunites to individual businesses and to manage the processes by which they can be achi Contact: Outrum Training Ltd. Telephone: 071 388 2044

JANUARY 16 IMPLICATIONS OF COMPLIANCE FOR IMRO AND LAUTRO.

Registory structure undergoing great continuing Retail Review, Thoms, new unit trust, client money and cold calling regulations mean major alterations to Jones, IBC, Tet 071 637 4383, Fax: 071

JANUARY 21&22 Rheumatoid Arthritis - Present Studies, Future Solutions. Updates on the origins, actiology, pathogenesis, methods of studying and treatment of this important disease. Talks treatment and an overall view of Drug

FEBRUARY 4 FINANCIAL STRUCTURING FOR COMPANIES. MOVING RECOVERY.

Scientific, Tel: 071 412 0141

Will you he ready? Key reconstruction aspects, acquisitions, improving cash flow, resum expansion capital, us, converting loans to equity: opti ons, problems and solutions explained by experts. Contact Sarah Avian, IBC. Tel: 071 637 4383. Fax: 071 631 3214 LONDON **FEBRUARY 14**

COMPLIANCE ISSUES FOR SECURITIES AND FUTURES DEALINGS UNDER THE NEW 1992 RITES. New SFA rulebook due in Dec come into force April 1992. Conference customer categorisation, corporate farance Contact: Alison Jones, IBC Tel: 071 637

4383, Fax: 071 631 3214

OVERSEAS **NOVEMBER 6-7** the antomotive industry and the environment Presenting the latera developments in Truffic Policies &

ment: Automotive Materials;

LONDON

Fuch & Emissions & Strategic Management 30 international speakers will identify ways to integrate increased transport demands with legitionate Technical Division, 071-412 0141

NOVEMBER 6&7 How to Implement the Activity Based Costing Management in Your

Stephane Doblin expert in ABM, will present the most important case studies of various multinationals. Alcatel, Bull + University of Heerlen will complete this practical Conference. Connect: Ms. Bueno, IJR SPAIN Tel: 34,91,531,98,07. Fax 34.91.521.40.06.

NOVEMBER 6 & 7 Managing the Global Enterprise ration of speeches and workshops on the new analy management, the issues that determine corporate success to managing the global

Contact: Jane Campbell. Tel: 322 640 6240 Fax: 32 2640 6735 BERLIN

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uropeans may increasingly drive the same makes of car, wetch the same television programmes and buy the same shampoos. But when they sit down to eat, they are notorious for reverting to highly individ-ual patterns of national and regional behaviour.

All the same, Unilever was surprised to discover recently that it was using 85 varieties of flavouring in the chicken soups it sells in Europe, and making Cornetto ice creams supposedly a standardised Euro-product – in 15 different

Only a few years ago, these disparities would have gone unchallenged, and probably unnoticed. However, the approach of the single European market, changing tastes and fiercer competition have compelled Unliever to ask whether it needs - or can afford - such diversity.

In many cases, the answer is no. Indeed, the company has concluded that its product range has often evolved less in response to vagaries of consumer taste than because each of its traditionally autonomous national subsidiaries had been left to do things in its own

Now, Unilever has launched a drive to re-shape its food business by eliminating ineffi-cient duplication, rationalising manufacturing, strengthening internal collaboration and extending products and marketing concepts faster across

These initiatives, which began to take shape in the late 1980s, have received powerful impetus since August last year. when Unilever set up at its Rotterdam headquarters the Food Executive, a co-ordinat-ing body intended to formulate a more coherent global strat-

gy. Morris Tabaksblat, the main board director who heads the executive, says an important reason for creating It was that the imperatives of European reorganisation were increasingly distracting top manage-ment attention from wider international priorities.

Until last year, executive responsibility for Europe lay with the Unilever groups responsible for co-ordinating product strategies. In practice, this dual harness meant that European operational concerns overshadowed the promotion of products in other parts of the world.

The company was also increasingly handicapped by the arbitrary sub-division of its

Unilever's food operations

Just one Cornetto...

When the multinational discovered it was making 15 different ice-cream cones it decided to formulate a more coherent global strategy. Guy de Jonquières reports

egories, comprising, respec-tively, edible fats, frozen prod-ucts and sundry food and drinks. "We had problems of territory, cracks, overlaps and

conflicts," says Tabakshlat. For instance, when Uni-lever's German margarine and other food and drinks subsidiaries were amalgamated in the late 1980s, the chairman of the merged company found himself reporting to two bosses whose priorities did not always con-

Worse still, market opportunities were missed. In the UK, Unilever dithered about entering the fast-growing market for chilled prepared meals, because these fell between the product categories the com-pany was organised to handle. The reorganisation, though

far less radical than that recently introduced for detergents, is intended to separate more clearly responsibility for geographic operations and product lines, while enabling them to be co-ordinated more

Regional directors have been appointed with specific responsibility for north and south Europe and the US, while food products have been split into five market-based categories with worldwide remits.

Knitting the matrix together is the joh of the food executive and of a cluster of newly-created committees which combine representatives of national and regional operating companies and product groups. Tabakshlat says Uni-lever is now equipped to pro-mote products such as ice-cream or tea on a co-ordi-nated worldwide basis.

The acid test of the reorganisation will be in Europe, which accounted for 61 per cent of Unilever's £11bn food business last year. Its 50 operating subsidiaries there are already being spurred both to compete more directly to develop and make new products, and to collaborate more closely in bringing them to market.

While competition is starting to yield manufecturing benefits (see accompanying article),

collaboration is prompting Unilever increasingly to explore uncharted zones of the European palate. "We are questioning more the old beliefs and traditions," says Tabaksblat.

In the old days, when each operating company developed and days are the lead and reading as the lead are t

products only for its local market, launching them in other countries could take up to seven years. Today, priorities have been reversed, to ensure that from the outset new products are sold in as many countries as possible.

"We are trying more strongly for international prodsays Manfred Stach. head of Union, Unilever's largest German foods subsidiary. "Only if there really is a distinct difference in taste do you

judging where harmonisation will not be noticed by consum-ers – and where genuine differences in local taste will create resistance. in general, Tabaksblat says.

the easiest products to har-monise are impulse huys, such as ice-cream hars. But the closer a particular food comes to being part of consumers' staple diet, the harder it becomes to transfer across borders.

While consumers are increasingly prepared to try new and exotic foods, these usually remain niche products. According to Allan Price, chairman of Birds Eye Wall's, Unilever's UK frozen foods subsidiary, about five varieties of stable food account for three quarters of sales in every

The approach of the single European market, changing tastes and fiercer competition have compelled Unilever to ask whether it can afford such diversity

go for the local aspect." Two recent product introductions demonstrate the new approach. Magnum, a choco-late-coated ice-cream bar, was launched Europe-wide in 18 months. Ragu, the best-selling spagnetti sauce in the US made hy Chesebrough Ponds, was successfully rolled out across Europe after Unilever acquired the American company in 1987. The only concession to local custom was to change the name to Raguletto in Germany,

to meet trade description rules. Unilever is also trying to iron out discrepancies between similar existing products. The Cornetto cone is being standardised on one design, while the variety of chicken soup flavourings has been much reduced Instead of formulating their own recipes from scratch, operating companies will increasingly draw on common

But simultaneous international product launches can be risky, particularly since they often preclude extensive local test-marketing. The skill lies in national market, with the rest divided hetween 10 or more niche products.

Yet there are exceptions. Lasagne has become virtually a staple food in many European – and American – households. By contrast, Birds Eye Wall's has made seven unsuccessful attempts in five years to create a UK market for Carte d'Or, a premium ice-cream which sells well on the continent.

Attempts to interest British consumers in frozen herbs -Unilever's most profitshle frozen product in Germany -have also flopped. So bave efforts to emulate another German success, a gourmet frozen fish dish. "We have had it on the market twice, and it's failed twice. We're going to try again because this is something we've got to make work." says Price determinedly. Even if products cannot

always be transferred successfully across borders, the marketing concepts and experience behind them can be. An example is Du Darfst (literally, "You May"), a range of healthy eating foods launched in Germany 18 years ago and now an umbrella brand covering 120 different products there.

As concern with healthy ext-ing has spread, the Du Darfst formula has been adapted to other countries and rechristened Effi in France and Delite in Britain. One advantage is that the brand can be sup-ported by common trans-European solvertising campaigns, cutting marketing costs.

Unilever companies are also applying each other's hrands to new products. Birds Eye Wall's, for instance, has extended to frozen foods the Gino Ginelli ice-cream hrand developed in Germany. So far, the tactic has produced mixed results. It has worked well

with pizza, but not with pasta. The approach can involve costly pitfalls. When Unilever set out to extend Healthy Options, a British line of ready meals, to other European countries two years ago, it learned too late that many prohibit use of the word healthy in a product name.

Just how far the company can push harmonisation, both in Europe and globally, is the subject of growing internal debate. Many executives insist local differences will keep the food husiness fragmented for many years to come, and that product innovation must remain firmly with individual national operating companies.

But others at a senior level of the company disagree. They say some foods, such as oils and fats, which are much the same everywhere, would bene-fit from more centralised direction of the kind which the company is applying to detergents.

The argument will not be easily settled. But the faster international tastes in food converge, and the easier it is to cater to them with common marketing strategies, the more insistent the pressures for further change are likely to

An earlier article on Unilever's detergents operations was published on October 21.



Pulling their fingers out

and fellow managers at Birds Eye Wall's had long assumed engineering costs on their fish-finger lines were lower than those at Langnese-Igloo, their German sister company. Two years ago they were shocked to discover that, though Languese paid higher wages, more efficient working practices gave it a 10 per cent est advantage.

At first, Price says, his fac-tory staff accused him of fudging the figures. Only after seelng Languese-Igloo's Bremerhaven plant in operation did they agree to changes on their own lines which elim-inated the cost difference.

The exercise was made possible by using a powerful computer system known as Best Proven Practice, which enables managers of Unilever's food subsidiaries continnously to monitor and com-pare each other's production

The system is part of an efficiency drive which is challeng-ing long-established habits and practices in the company's operating subsidiaries throughout Europe. Product sizes and packaging

are increasingly being har-monised. Pish-lingers, currently available in seven different sizes, will in future be made in only two, while a reduction in the number of margarine tubs from 21 to nine is planned.

Manufacturing of interna-tionally saleable products is

being concentrated in fewer,

higger factories. Chocolate ice-cream, for instance, is now made at only two plants, in Gloucester, western England, and Heppenheim in Germany, while Italian processed cheese production has been transerred to Neu Ulm in Germany. These moves have several

objectives: • To reduce costs by eliminating excess capacity, improving scale economies and siting production in the most effi-

• To deepen the experience of factory managers and workers by enabling them to specialise in making a limited range of products in large volumes.

To enable production to be switched more easily between plants in response to finctua-tions in European demand. • To encourage healthy competition between plants in dif-

Unilever will not say how much further the rationalisan has to run, and whether it will involve shutting any of its 100 plant sites as well as moving production lines. However, Morris Tabakshlat, (above right) who estimates Unileverhad twice the production capacity it needed when the restructuring began, says: "I'm not saying we won't

ent countries.

But he is also emphatic that the company does not aim to have every product made in just one plant. Once factors such as transport costs and security of supply are taken into account, be says, such a system would be uneconomic.

Management abstracts

The voice of experience. J Van Ahn in Personnel (US), Jan 91

(1 page) Presents en approach to induction training whereby starters are given classes taught by employees who started at the bottom and who have developed and progressed in the organisation. Four sub-jects are covered: people skills, making the transition (to the company), profassionalism, and keys to success. Claims this role-model approach works well for both teacher and pupil.

Making time for productivity.

P Lynch in Personnel Management (UK), March 91 (5 pages)

Asserts that the need for management to raise productivity is as true today as it has ever been despite this, work standards have been abandoned and work study departments relegated to the side-lines and "headcount control" has taken their place, but at the cost of uncontrolled overtime. Argues that the principal elements of the productivity equation must be to increase the time employees spend actu-ally working productively, and to make more use of plain-time working hours (which do not attract premium payments): examines strategies which sup port each of these elements.

Diagnosing global strategy potential. GS Yip + GA Coun-douriotis in Planning Review (US), Jan/Feb 91 (11 pages) Taking the world chocolate

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confectionery industry as an example, discusses a frame-work for diagnosing industry globalisation potential and explains how to develop a globally integrated strategy. Argues that potential depends on four conditions — market, cost, government regulation and competition - each of which provides factors that drive the industry towards globalisation; describes these driv-ers, identifying market and competitive drivers as the strongest spurs to globalisation in the industry. Explores how the major competitors - Nes-tle, Hershey, M&M Mars, and Jacobs Suchard - are using global strategy in terms of market participation, product, value-added activities, marketing and competitive moves, and what they could learn from each other.

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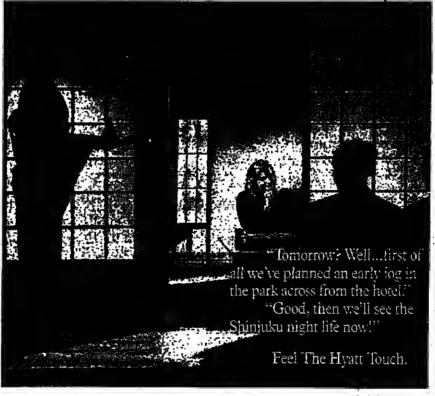
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At general meetings of ordinary and deferred shareholders and of option holders held on 25 October 1991, the necessary resolutions were passed in terms of which the amended conditions relating to options, providing for the options to be exercised during the period 1 November 1991 and noon on 30 November 1991 or during the period 1 November 1992 and noon on 30 November 1992, were approved. The special resolution passed by the option holders has been lodged for registration with the Registrar of Companies, Pretoria, in compliance with the provisions, of the South African Companies Act.

Option holders who do not wish to exercise their options during November 1991 are required to surrender their option certificates in order that replacement certificates, reflecting the amended conditions, may be issued. The relevant documentation in this regard will be mailed to optimn holders shortly.

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28 October 1991

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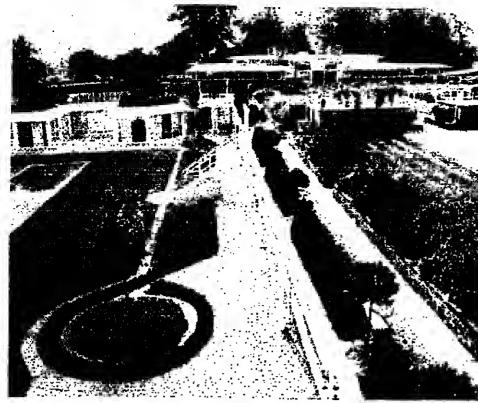
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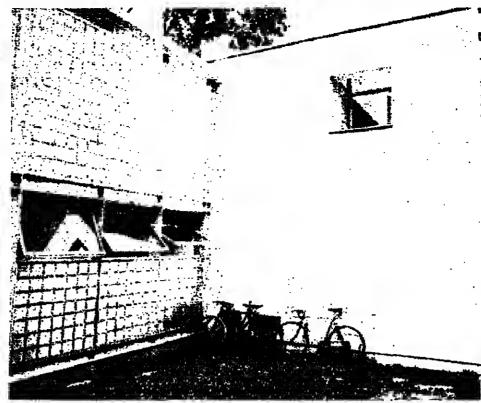
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Edward Cullinan's new headquarters for the RMC Group plc; and David Chipperfield's set of mews studios in Camden Town

Some little gems in the FT awards' crown

The countdown continues, On November 4 the secretary of state for the environment will announce the winner of this year's Financial Times Architecture at Work Award, To accomplish the difficult task of selecting a winner, the jury itwo architects, Nicholas Grimshaw and John Outram, and one distinguished layman, Lord Gibson) have spent many hours examining the shurtlisted huildings.

It may be a reflection of the policies of the Thatcher years that so many of them were in the south-east. A lot were products of the 1986s property boom and this factor, in many cases, seemed to rule out real architectural achievement. That delicate balance hetween commercial values, econonues of construction and architectural design sophistication is very hard to nchieve; and it is just that balance of achievement which the FT Award seeks to discover and reward.

Sometimes that special sort of architectural achievement is more easily found in huildings and projects of a smaller scale. There were several of these on this year's shortlist: perhaps they are the jewels in British architecture's tarnished crown.

Architects Peter Aldington and Paul Collinge were commissioned by W.H.Smith to huild a small office building in the park of Milton Hill in Berkshire. The old house was once the home of the Singer sewing machine family and is now the W.H. Smith training centre. Aldington and Collinge are best knuwn for their very sensitively designed modern houses, often set in intriguing gardens. Their architectural language uses brick and timber with often a hint of Scandinavian modern design.

The brief for this modest building was to make a home for the pension trust fund staff who were to be relocated from London. The budget was tight and the needs relatively simple - modest offices with good daylight and the necessary wiring for up to date computer installations. The

result is n glass, brick and timber pavilion set almost like a lodge to the main house and park. Its best fenture is the quality of the natural light in the offices and the views out into the landscape. It is undoubtedly a very agreeable place to work in and it provides an enjoyable experience as you pass from the low-key front entrance to the sweeping views from the south-and west-facing sunny offices.

Another modest, almost secret, development is a set of studios in a mews in London's Camden Town. These were designed by David Chipperfield, e younger architect who is much influenced both by the early days of the heroic Modern Movement and hy contemporary Japanese archi-

tecture. Because the site is surrounded by huuses and gardens, most of the light for the interior spaces is provided through roof lights or glass bricks reminiscent of the 1930s. The uther materials are concrete in a smouthed out "brutal" style, and steel and glass. The language is Cubism with a fair dose of "designer culture" thrown in. It is not hy chance that these studios are occupied by archi-tects and designers, who seem very happy in the ideal geometry of a rep-lica of a late Corhusian vilia set down

rather surprisingly in Camden Town.

Scale changes a little nt Chilworth Park, a development of six two-storey pavilions set in a formal landscape surrounding a manur house in Hampshire. This was a joint promotion by Southampton University and the property company MEPC. This is one of two hulldings in the short list designed by Edward Cullinan. Tha whole scheme is somehow more than the sum of its parts. The concrete frame hulldings with their metal roofs are rescued from monotony by canoples of cedar slats resting on light steel outriggers. Curving walls of local materials hide the service areas and avenues of trees and landscaped courts furnish the architecture, turning it all into one generous green

the remarkable international headquarters of the sand and gravel company, RMC Group plc. The brief was to provide offices on a difficult green belt site that was already partly occupied by three domestic huildings, one of them a listed Georgian house, with lakes and landscaped gardens provid-ing the setting. The architects bave been ingenious almost to n fault in the skilful way they have turned the new offices into an entertaining extension of the landscaped garden. Miraculously, three and a half thou-sand square metres of office space has been provided as well as a swimming pool, restaurants, lecture room and TV studio. The older hulldings have either been restored or extended and they now turn their faces to the

huildings.

A football stadium, an important new London office block and an unusual conversion of some London Edwardian offices made up the remainder of this year's short list. When the creative agency Imagina-tion Limited commissioned Ron Her-ron Associates to convert some early 20th century huildings in Bloomsbury It wanted something unusual. It got it in the form of a brilliantly tented ndscape. atrium court that links two buildings. Edward Cullinan's other huilding is Six storeys high, this top lit court

newly created "office gardens" -

much of it on the roofs of the new

spanned by bridges is one of the most exciting new spaces in London.

The football and athletics stadium in Sheffield's Don Valley was erected as part of the regeneration pro-gramme by the Design and Build ser-vices of Sheffield City Council. This too has Tellon stretched fabric roofs

like the Imagination etrium - e material that gives plenty of scope for swooping shapes geometric drama. This is a thrilling stadium, although its details do not quite reach high tech perfection.
At Exchange House in the Broadgate development close to the City of London, the American architects

Skidmore Owings and Merrill attempted a tour de force of engineering above the Liverpool Street railway tracks. The huilding, in effect, spans the site like a hridge; the exposed parabolic arch on the sides of the huilding engrets railway angineer. hullding snggests railway engineer-ing. Alas, to economise, it has been cast in segments and so lacks the real curved elegance of a genuine parabola. It is the beautifully landscaped Exchange Square that is the most positive addition to the development, where a giant, naked woman by the sculptor Botero voluptuously overwhelms the whole development. She is a prize winner in her own right.

Colin Amery

Choreartium

BIRMINGHAM HIPPODROME

Leonid Massine's symphonic ballets were considered pinna-cles of the dance during the 1930s. Massine was the embodiment of that new creativity in the revived Ballets Russes which had assumed the mantle of Diaghilev's company. The arrival of the Ballets Russes troupe in London in 1933 was ecstatically received. After the four hleak years since Diaghilev's death, here again was the glamour and excitement of "Russian ballet", and what more thrilling in a thrilling season textended from three weeks to four months) than Massine's Les Présages, set to Chaikovsky's fifth symphony, and Chorearnum, created during the season to Brahms'

fourth symphony? Ballets set to symphonic music were not new: immedi-ate precursors were Alexander Gorsky's realisation of Gta-aunov's fifth symphony in Moscow in 1915, and Fedor Lopukhov's *Magnificence of the* Universe produced in Petrograd in 1923, which used Beethoven's fourth. But it was Massine who was to become identified with the idea of "symphonic hatler", and between 1933 and 1939, Les Présages, Chureartium, Symphonie Fontastique (Berlioz), Seventh Symphony (Beethoven) and Rouge et Noir (Shost-akovich 1) were nmong the chief choreographic tandmarks of the age fur a devoted

The vagaries of public taste, war, and the fading of the Ballets Russes in the face of emergent national ensembles. prought oblivion to much of Massine's work, and especially these symphonic creations which were so essentially of their time in dramatic response to their music. A revival in Massine's fortunes long overdue - was signalled when, three years ago, the Paris Opera invited Tat-iana Leskova, a leading dancer with the Ballets Russes, to produce Les Présoges, Mme Leskova's prodigious memory, and her skill in teaching Massinian style to artists very different in training and temperament from those for whom the work was conceived, made the Opera revival a grand restatement of

Les Presages' significance. Now Peter Wright has hrought Mme Leskova to restore Choreartium to the stage for Birmingham Royal Ballet. The result is fascinating, entirely convincing -which a post-war revival, thirty years ago, was not. The one significant change is that Nadine Baylis has created beautiful and sympathetic new sets and costumes (though these latter are inspired by the originals). The t933 decorations hy Terechkovich and Loorie were not greatly admired. (Irina Baronova, a member of Choregroum's first and plorious cast, told me that the ballet never looked better than at a preview when it was given in practice dress). Miss Baylis has made four act drops that are washes of colour most happily responsive to the atmosphere of Massine's choreography.

So we see, clear and persua sive, the ballet that created such a stir at its creation. Then it divided critical and public judgment - how dared chore-ography assault a symphonic masterpiece? - with the eminent Ernest Newman an unexpected advocate of its innovation. "The ballet works itself out...as a design reproducing in the subtlest way the design of the music in matter of subjects, repetitions, balancings, treatment of episodes . . . th more musical we are, and the better we know our Brahms, the more pleasure we derive from Chorearmum."

What Massine proposes in Choreortium is certainty a response to Brahmsian device on immediate terms of thematic and formal structure, hut it is one overlaid with an emotional - a Russian emo-tionat - interpretation of mood. The dance in the first movement surges and coalesces into heroic outlines and groupings. The andante is a dirge for a linked chain of eighteen red-robed women who are the grieving hackground for n threnody given to a female soloist. (The part was conceived for Nina Verchinina, who combined classic tech-nique with a central European free-dance style, and its rich plastique is admirably exposed by BRB's Samira Saidi). The scherzo is a pastoral scena, and the finale, at first dark in feeling, becomes a summation of the entire work's dynamic and monumental form.

Massine's choreographic analysis of the symphony in conceived in strong sweeps of activity, and it is given with splendid assurance by BRB's artists, whose expressive force as an ensemble merits every praise. They savour the generous outlines of Massine's style, and race with the proper head-long energy into the tremen-dous demands of his hravura writing. But how intriguing that Friday's triple hill, which showed us this revival for the first time, should begin with another ballet sprung directly from its concert score: Balanchine's Mozartian Divertimento No.15. How vast the differences, and how inescapable the comparisons. Balanchine understood music as a musi-cian, his choreography a loving hut objective response to a score's organic life, his cloth-ing of it in dance a natural and unclouded activity. For Mass ine, symphonic music was essentially narrative, feeling dominating form, subjective understanding inspiring theat-rically vivid imagery, in Choreartium we see this manner at its best - as we see Balan-chine's at its best in the Divertimento (which was gloriously danced by Miyako Yoshida and Petter Jacobsson). The restoration of Choreartium to the repertory hrings back to life work that should retain an honoured place in any assess-ment of this century's ballet. To Tatiana Leskova, to Peter Wright and the BRB artists. tremendous gratitude.

Carlucco and the Queen of Hearts HAMPSTEAD THEATRE

"King Charles III of England", Bonnie Prince Charlle to history and Carlucco to his very He ended his days in a Florentine palazzo, decomposing, deshabilic, and drugged by wine, slumped immobile in his chair just like a resident of a contemporary sunset home.

His wife, known with reason to the local roues as the Queen of Hearts, perpetually complained about the horing domestic evenlngs without company - no guests would call because the Queen of England could not possibly make visits in return.

A play about tedium can be trying for an nudience, and writer George Rosie, who saw Carlucco win an Independent Award at the Edinburgh Festival which includes this London run, gets badly bogged down with Scottish history as he plays up parallels between Charles Stuart and his royal ancestor who also suffered

logue was comfortably trounc-

But gradually the bright idea of portraying one of the great romantic heroes in anonymous decline, an embarrassment to his servants, the local Grand Duke, and to himself as he pukes his way into ohlivion, shows its mettle. Charles's regal delusions

remain intact - be has a pact with the street beggars who let him touch them for the King's Evil in return for a tip - and David Kincaid conveys the majesty and dormant authority behind the gross exterior. Sympathy switches from Eilidh Fraser's pouting, caged, Queen, and her lover on the make (Alexander West) to the cuckolded King, and when the action does explode it is with

sudden violence.
There is a sub plot involving Sir Horace Mann (Robin Thomson) as a camp local British

marital problems, Mary, Queen envoy who keeps official tabs on the King's decline on behalf of George III, with the help of a who has a nice line in smut and Yorkshire accents. You feel their relationship is more interesting than that between the Queen of Hearts and the

"King of Farts". Both the set and the direction, by Sandy Nielson, who on press night stepped in suavely for an indisposed actor as the Klng's loyal scrvant, are

sparse.
The Scottish accents and the obsession with Scotland's past make this a natural choice for a Festival hlt, hut there is enough quirky charm around to justify its transfer. Not least the clothes, which are hit and miss 18th century. Fraser in particular flounces around in Dr Scholl shoes, knickerbock-ers, and wielding a lavatory hrush. All in all an oddbal play ahout an oddhnll

GLYNDEBOURNE

Janacek's Jenufa, the third Touring Opera's season this year, is the well remembered 1989 festival production by Nikolaus Lehnhoff, who has personally supervised the revival.

Those who know Jenufa will need no prompting. Those who don't and live in the areas to be visited now have the opportunity of seeing a taut, vital staging of one of the finest and most gripping operas written at the turn of

the century.
It is, I hasten to say, well worth a more than local journey. The performance is given, with supertitles, in the original Czech. To my mind this is a drawback, but the

only one. On Wednesday evening the first act was unsettled: Tobias Hoheisel's no doubt deliberately claustrophobic

water mill setting looked at by villagers seemingly afflicted by an epidemic of St. Vitus's dance something to do with the water supply? The jerky, expressionist-style movements did not sit altogether happily on even the expert Glyndebourne

Not until the following act did conductor Graeme Jenkins and the GTO orchestra reach the point where Janácek's broken lines and stabbing colours suddenly make complete sense.

After the interval, all went well. Susan Bullock's Jenufa is a rounded, moving, credible portrait. I admired the integrity and intensity of Susan Bickley's Kosteinicka, in feature so like her foster danehter Jenufa that one might have

thought her the real

The resemblance extended to vocal colour - more contrast would make their scenes together even more moving. The new Kostelnicka is completely independent from her unforgettable predecessor Anja Silja. Except for his too fidgety behaviour at the beginning of the opera, Kim Begley's

faithful Laca is as good as any I have seen. Step-brother Steva, the cause of Jenufa's trouble, is understandably overshadowed but Christopher Ventris effectively conveyed the character's belated

emorse. The miserably unhappy wedding breakfast in the last act is superbly done. to pursue jazz music as a career and who have never **Ronald Crichton**

Thelonious Monk Institute's competition

The Thelonious Monk Institute of Jazz in Washington DC in the United States has announced its fifth annual instrumental competition, this year featuring the saxophone. It is open to all saxophonists under 36 years old who plan

recorded commercially as a leader with a hig record

Clement Crisp

label. Scholarship prizes are first place \$10,000 (Ford Motor Company); \$5,000 for second place, (sponsored by the Junior Beethoven Society) and \$3,000 for third place (sponsored by the United Black Fund).

INTERNATIONAL TODAY'S EVENTS

■ ATHENS

Concert Hall 20.30 Montevardi's Il Ritorno d'Ulisse in Patria, in a Stravagente conducted by Skip Sempe and staged by Victor Ardittis. Repeated on Wed, Thurs and Fri (722 5511)

■ BERLIN

MUSIC Schauspielhaus 20.00 Milan Horvat conducts the Berlin Symphony Orchestra in Haydn's Symphony No 73, Mussorgsky's Pictures from sn Exhibition and Pfitznar's Cello Concerto, with Gerhard Mantel. Tomorrow and Wed James Lsvine conducts the Berlin Phliharmonic. Thurs: Orchestra of the Berlin Musikhochschule (East Berlin 2272

Philharmonle Kammermusiksaal 20.00 Brass ansembls of the Berlin Philharmonic, Tomorrow: Deutsche Kammerphilharmonie pleys Mozart, Beethoven and Bialas. Wed: Shure Cherkassky recital (West Berlin 2614 383)

THEATRE East Berlin: at the Berliner Ensemble on Sat, the Ki-Yi Mhock Thealre group from West Africa

presents a Franch-language performance entitled Singue Mure, about a girl who breaks trea trom the role expected of women in a tradition-bound society. This week's rapertory elso includes The Threepanny Opere tonight, The Caucasien Chalk Circle tomorrow, Schweyk on Wed and The Good Person of Sszchuan on Thurs and Sun (2827 712). The Deutsches Theater has a new single-evaning adaptation of Shakespeers's Hsnry VI tomorrow st the Ksmmsrspisle (2871 226). The Volksbühne is showing Shakespeare's The Comedy of Errors tomorrow and Sun, end Schillsr's Die Rauber on Thurs (2082 748). The Mexim Gorki Theater has Athol Fugard's The Way to Mecca on Fri and Caryl Churchill'a Top Girls on Sat (2082 763). West Berlin: the Schaubuhne has

Arthur Schnitzler's The Lonely Road tonight, Klelst's Amphitryon on Wed, Fri end Sat, and Luc Bondy's production of The Winter's Tsle on Sun (890023). The Schiller Theater has Goeths's tphigenle auf Teuria tonight, lowed tomorrow by Liebe Macht Tod. Thomes Brasch's modern adaptation of the Romeo and Juliet story. Lessing's Minna von Barnhelm can be seen on Fri and Goethe's Faust on Sat (3195 236).

■ BOLOGNA Teatro Communale 21.00 Giuseppe Grazioli conducts the Bologna Chamber Orchestra end vocal soloist in a performence of Corradino, music by Carlo Galanle. Sat and Sun: Hans Graf conducts the Orchestra of the Teetro Communala in music by Bussotti,

Haydn and Wolf, with Jean-Philippe Collard soloist in Mozart'a Piano Concerto No 23 (529999)

■ BRUSSELS

Patals des Beaux Arts 20.00 Armin Jordan conducts the Orchestre de la Suisae Romands în Frank Martin'a Concerto tor sevan wind instruments, Baethoven'a Third Pieno Concerto with Radu Lupu and Stravinsky's The Rite of Spring. Wsd: plano recital by Nikita Mageloff (507 8200). Tomorrow in the Monnele: tha fourth and final cycle of the Brussels Ring opens with Das Rheingold conducted by Sylvain Cembrsling, with Die Walkure on Wed, Siegtried on Fri and Götterdämmerung on Sun (219 6341)

■ COLOGNE Philharmonie 20,00 i Virtuosi di Rome in a programme of barooue Tomorrow: Wynton Mersalls and Friends, Wed: Chrls Barbsr Jazz Band, Thurs: Mandelssohn's Elliah. Frl: Reguloms by Salieri and Mozert. Sat: Yehudi Menuhin conducts the Barlin Steatskapelle Sun: Kurt Masur conducts ths Leipzig Gewsndhaus Orchestra In Beethoven's Sixth and Seventh Symphonias (2801) ernheua On Fridey, tha Cologne Opera gives the Garman premiere of York Höller's opera Der Meistor und Mergerita (further performances on Nov 5, 9, 14, 19,

conducts Friedrich Meyer-Oertel'a new staging. This week's progremme also includes a Lieder recital by Anna Tomowa-Sintow Iomorrow, L'elisir

23 and 27), Lothar Zegrosek

d'amore on Wed. Sat and Sun (221 8400)

LONDON

Royal Fastival Halt 19.30 A programme of jazz classics with Cenny Ball and his Jazzmen, Acker Bilk and his Paramount Jazz Band and Humphrey Lyttelton and his Band, plus special guests. Tomorrow: Kyung-Wha Chung pleys Mozert's Violin Concerto in A K219. Wed: Luciano Berio conducts the Philharmonia. Thurs: Pollini pleys Mozart with Ashkenazy and the RPO. Fri: Armin Jordan conducts the Orchestra Rostropovich conducts Prokofiev (071-928 8800) Barbican 19.45 Leon Lovett

conducts the English Concert Orchestra and London Oriana Choir in Mendsissohn's Elijah, with soloists including Neil Mackle, Sarah Welker and Benjamin Luxon. Tomorrow: Armin Jordan conducts the Orchestre de la Suisse Romands. Wed: Jeffrey Tate conducts Mozart, with soloist Cecllie Bartoll and Andras Schiff. Thurs: Paavo Berglund conducts the LSO. Fri: Rattle conducts Henze's Seventh Symphony (071-638 8891)

■ NEW YORK

THEATRE The New York Public Theater opens its 1991-2 season tomorrow with Brecht'e Jungle of Cities, directed by Anne Bogart (runs till Nov 24). Pericles, Shakespeare's rerely-pleyed romance, opens on Nov 5, and the season has six other productions, including Lorca's Blood Wedding end a

· two-week festival of solo performance pieces. Advance booking is will advised (Inquirles to New York Shakesneare Festival 425 Lafayette St. 598 7150) MUSIC

Metropotitan Opera 20.00 Luciano Pevarotti heads the cast in John Copley's nsw production of L'elisir d'amore. Tomorrow: La fanciulla del West with Placido Domingo. Wed end Sat Die Zeuberflote. maschera (382 6000)

■STOCKHOLM On Saturday, the Royal Opera presents the world pramiera of

Daniel Bortz's new opera The Bacchantes, in a production by Ingmer Bergman. This is only the third time that the distinguished Swediah director has atagad an opera. The Bacchentes is closely based on the original Greek tragedy by Euripides, and will be sung in Swedish. The production runs till December 13. The Royal Opere's repertory this week siscincludes Dis Zauberlidte tonight and Wed, plua Entführung tomorrow end Fri (248240). At the Berwald Hsli on Wed, Kjell Seim conducts a tunchtime concert of Rossini and Mozert with the Swedieh Radio Symphony Orchestra (784 1800). At the Konserthuset the same evening Gennady Rozhdestvensky conducts the Stockholm Philharmonic in a Berlioz progrsmme (244130)

■ VIENNA

MUSIC Staatsoper 20.00 La fille mal gardée. Tomorrow: La nozze di Figaro. Wed and Sat: Rusalka.

Thurs: Il barbiare di Siviglia. Fri and Sun: Persifal (51444 2960) Musikverein 19.30 Marjana Lipovsek, accompanied by Geoffre Parsons, sings Lieder by Schubert and Brshma, also Wed. Fri and Sun et 11.00: Cleudio Abbado conducts Verdi's Requiem with the Vienns Philharmonic Orchestra and State Opera Chorus (505 8190) Konzerthaus 19.30 Lieder recital by Josaf Protschka, accompanied Hans Dieter Freysr. Tomorrow: Julien Bream recital. Thura: Helnz Holligsr is conductor and oboe soloist with the Vienna Chember Orchestra (7124 6860) THEATRE

This week's repartory at the Burgtheater includes The Merchant of Venice tonight and Cesars Lievi's new production of Weiting tor Godot on Wed and Thurs. The Hollmann's production of Botho Streuss' Schlusschor on Wed and Thurs (51444 2218)

■ ZURICH

Opernhaus 20.30 Alban Berg Quartet plays string quartets by Mozart, Janacek and Brahms. Wed: Die Zsuberflöte with Lucia Popp as Pamina. Thura: Il barbiere di Sivigtls. Fri: Msra Zampierl sings Tosca. Sun: Der Rosenkavaliar with Montserret Cabellé as the Marschallin (251 0909) Tonhalle 19.30 Piano recital by Siiri Schutz, with music by Bach, Berg, Beethoven and Chopin, Wed: Walter Weller conducts the Tonhalle Orchestra in symphonies by Mozart and Ovorak. Thurs: Wolfgang Hotzmelr sings Barber's Dover Beach, with the Quetuor Sine Nomlna (201 1580)

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FINANCIAL TIMES

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Monday October 28 1991

The hard road to peace

IT IS all too predictable, and vocally obvious, that the par-ties due to participate on Wednesday at the opening of the Middle East peace conferance in Madrid have deeply opposed objectives born out of the bitter experience of the past four decades. No one outside the region can have any justification for expecting quick progress or easy compro-mises on the road to a solution.

But Israel and its Arab nego-tiating partners must also be aware that the international political climate has changed emphatically in the past few years and the world commu-nity, headed by the co-sponsors of the Madrid conference, the US and the Soviet Union, has every right to expect them to make a serious commitment towards finding a durable settlement. The chronic instabil-ity of the Middle East has demonstrated again this year the extent to which it poses a threat well beyond the region.

The lines of a settlement need equally to be based on the broadest measure of international acceptance which will in turn be the best guarantee that any agreementa will be adhered to. The starting point therefore has to be UN resolutions 242 and 338 which were adopted after the 1967 and 1973 wars respectively and which endorse the principle of exchanging occupied territory

for peace and recognition.

It is absurd for the present
Israeli leadership to insist that it bas already fulfilled that requirement by returning the Sinai to Egypt as part of the 1979 peace treaty between the two countries. Rather, that treaty should be primarily viewed as an important prece-Arab-Israel settlement can be negotiated, land returned, and a peace sustained for more han a decade.

Vital concern

The vital concern for Israel in Madrid should be to start exploring fully whether coun-tries such as Syria and Jordan have now reached the point at which they are prepared to follow in substance, if not in style, the example set by President Anwar Sadat of Egypt. By agreeing to attend the

Madrid conference the Arab countries and, though not for-

THE BRITISH Treasury faces an unenviable task. This year's

public spending round is the most politically sensitive the

present government has faced.

is high, tax revenues are low

and there is no economic growth to speak of. The golden

Yet it is being conducted in a far from friendly economic environment. Unemployment

Mr Lamont's

mally represented, tha Pales-tine Liberation Organisation, seem to be saying they are ready to strike a deal along the lines of the two UN resolutions. If that is the case, a huge step forward will have been taken. The role for the US, the Soviet Union and the European Community would then be to find ways of answering Israel's concerns over the dangers of relinquishing territory.

Palestinian autonomy Such risks involve the future status of the Palestinian people now living under Israeli occu pation in the West Bank and Gaza, military security, vital questions such as water sup-

ply, and future regional eco-nomic relationships. Whatever Israel's sensitivities to PLO representation, no arrange ment will prove durable with out some form of antonomy for the Palestinians which at least holds the prospect of eventual self-determination.

It is a forbidding list of obstacles but one which an increasing number of govern-ments believe can be resolved. They are heartened by the peace treaty signed by the Cambodian factions in Paris last week. That conflict seemed scarcely less intractable, yet as each hurdle was overcome the next seemed less insurmountable. In the end it took a commitment by the UN to launch its biggest peace-keeping operation, including the transitional administration of most of Cambodia, to achieve an

The commitment from the international community will have to be no less for the Middle East. It will be important that President Bush in Madrid gives some indication of the assistance the US might be willing to provide, in particular on security guarantees.

Having expended such effort to get to the start of a peace process, the US and other western nations will not look kindly on total intransigence and a refusal to negotiate on the key issnes. The Madrid conference has to be viewed as the best opportunity for many years to begin a process which could at last bring peace to the Middle East. The participants have an international obligation to attempt to build on

fiscal lament are. The Budget projection for

combination of rising real spending and tax cuts financed from economic growth will not be an option this year or Any tax cuts or spending increases this year or next will have to be financed by borrowing. Yet the manner in which the public sector borrowing

requirement is growing is already generating concern in financial markets. The problem is not that the PSBR is rising. A temporary budget deficit during and just after a recession is both sensibla and consistent with the

government's commitment to balance the budget over the medium term. This year's Medium Term Financial Strategy allowed for budget deficits both this year and next.

Britain's membership of the European exchange rate mechanism makes it even more important that the automatic stabilisers be allowed to work fully. With monetary policy devoted to protecting sterling's position in the ERM, fiscal pol-icy is the only stabilising force at the government's disposal.

Nor is the scale of borrowing high by past standards. The PSBR, excluding privatisation receipts, is likely to exceed 3 per cent of gross domestic product this year and 4 per cent in 1992-93. These deficits may appear large compared with the cyclically inflated surpluses of the late 1980s; but they are small compared with the last recession and half the levels of the profligate 1970s.

Nervous markets

The markets are nervous in part because the PSBR is rising much more rapidly than was forecast in this year's Budget. The PSBR is already 35 per cent ahead of its £8bn target for the entire financial year. It is expected to reach £20bn in 1992-93, a substantial £8bn

Here, the government is its

unrealistically low PSBR tarmuch worse than they really spending on unemployment benefits, for example, was based on last autumn's actuar ial projection that unemployment would average 1.75m over the next two years. This esti-mate was out of date evan before the Budget. Unemployment is now 2.5m and rising.

Discretionary spending The overshoot, in addition to

the depth of the recession, also reflects a rise in discretionary spending on health, railways and child benefit. Yet is too far too soon to claim that the government is losing control over public spending. The ratio of government spending to GDP (excluding privatisation receipts) will rise to 40 per cent in 1990-91 and 41 per cent in 1992-93, 3 percentage points higher than in 1989-90, but still lower than at any time in the entire 1972-1987 period.

Yet this rise in spending will probably turn out to be inconsistent with a balanced budget over the entire economic cycle. The outcome will depend on how fast the economy recovers. But the UK could well face several years of slow growth, low profits and sluggish income growth alongside demands for higher spending on health,

education and transport. Given thase constraints it makes more sense for the gov-ernment to stabilise the ratio of gross ontstanding public debt to GDP over the cycle, enabling it to remain a net borrower. This deht ratio has aiready fallen to 36 per cent last year from 54.7 per cent in 1984 and is much lower than the OECD average of 58.3 per cent. There is no pressing need

to reduce it further.
In any case there will be lit-tle room for pre-election finetuning before next Juna. If fiscal policy could predictably be used to speed the recovery, which it cannot, it is almost certainly too late.

Nor is the government likely to risk tax cuts that are financed by higher borrowing. After 12 years of austere rhetoric they would appear not just as bribes but financially reckless ones. The electorate would over? It would be surprising be confused. But the Labour own worst enemy. By picking party would have e field-day. If they were not.

resident François Mit terrand is in trouble. His government has been besieged by a succession of rolling protest demonstrations, from farmers, nursea and public service employees. With the farmers, the police seemed incapable of preventing quite serious vio-lence; and yet they made the grave political error of inflict-ing their own violence on a peaceful demonstration of striking nurses. It has some-times looked as if social protest

These problems have accelerated the downward slide in popularity of the prime minister, Mrs Edith Cresson. She was well received by public opinion when she was appointed a mere five months ago; but she has now sunk lower in the opinion polls than any French premier for more

was getting seriously out of

than 10 years.

The outlook for the government is therefore rather grim. The ruling socialists will prob-ably do badly in regional elec-tions next spring, and on current assumptions can expect an even worse defeat in gen-eral elections a year later.

The conventional wisdom, especially on the right, inter-prets this situation as the natural consequence of three converging factors: first, President Mitterrand is no longer young, and 10 years in office have used up his credit and his powers; second, the socialists failed to take full advantage of the fat years of 1988-90, and now they are paying for the lean years of 1991-92; third, President Mitterrand's appointment of Mrs Cresson has so tightened his identification with every detail of government that he cannot avoid being branded by the government's

The trouble with the conventhe tronnie with the conven-tional wisdom is that it is alto-gether too basic, on at least three counts. It crudely over-simplifies the Mitterrand fac-tor, and it ignores two sys-temic questions which are much more fundamental:

— Is this a temporary political Is this a temporary political storm that we are seeing, or is it really a structural and con-

stitutional storm? How much of this domestic French storm is being blown up hy the approach of the all-important European Treaty summit at Maastricht in

First, the Mitterrand factor. There is absolutely no sign that he is worn out or losing his intellectual touch; in his public appearances he is as lively as a cricket, and by all

accounts he thoroughly enjoys his job. His critics charge that he betrayed instinctive errors of judgment, in his apparent acquiescence in the abortive Moscow coup in August. Yet other western leaders, who have not been accused of being

A more valid criticism is that he enjoys his job too much, and meddles in many issues which should be handled by his government. Last week he seemed to have defused the confrontation with the farmers, first hy londly threatening a stick of law and order, and then by offering (more discreetly) a carrot of various concessions on taxes and pensions. But in a well-run system, the president of France

Ian Davidson on the constitutional problems facing Mitterrand

A system's malaise



ought not to have to run the if he enjoys doing so.

In any case, whatever one thinks of President Mitterrand's recent score-card, it would be deeply unsafe to write him off. He is a daunting political operator with a daunting intellect, and he has the resources of the French state at his command; and that is a powerful combination. His situation is difficult, and may well get worse. But he is not finished yet, not hy a long

The question of whether the current storm is a constitutional Issue is rather harder to size up. When President Mitterrand suggests the desirability of a more proportional voting system, he immediately provokes a chorus of indignation from the opposition. The presitem that would be fairer; but the opposition instinctively assumes that his real motive is disreputable gerrymandering. The opposition may have a

point. In 1985, when the social-ists were facing defeat in the 1986 elections, the government went over to a proportional voting system - a change that was reversed by the victorious Gaullist government. Mr Mit-terrand's main objective then was obviously to limit socialist losses, even though it opened the door to 35 members of the extreme rightwing National Front

Over the years, however, there has been a growing sense that the whole system is suffering from a serious malaise and needs structural reforms, There is no consensus on what those reforms should be, but the subject of constitutional reform is very much in One indication of the mal-aise is the steep slump in the

reputation of the political class as a whole. This is partly a result of the long-running scandal over illicit methods of party financing, in which the socialists were most deeply implicated.
But there seems to be a

deeper alienation from a system which has been built on the outdated left-right dialectic of class warfare. The voters are deserting the traditional parinterest in the old ideologies; the cold war is over. In economic policy, says a recent poll, 55 per cent of voters see little or no difference between left and right, and 80 per cent see none over unemployment. But there is a more serious

structural problem, in the apparently inexorable increase in the power of the presidency, and the corresponding decline in the influence of the National Assembly, foreign policy and defence have always, by tradi-tion, been the president's pre-rogative; but under President the government's agenda seems to be actively decided by the Elysee, and this trend has been accentuated since the appointment of Mrs Cresson. Meanwhile, the National

Mitterrand, more and more of

Meanwhile, the National Assembly plays less and less of a role in controlling or influencing government policy. The Socialist government does not have a majority in the Assembly, but it can still ram its legislation through without a vote, by challenging the opposition to table a censure motion. Inevitably, debates are very sparsely attended.

The overwhelming power of the presidency means that the

the presidency means that the entire political system is obsessed by the next presiden-tial election, even though this is still nearly four years away. The factions of the Socialist party are tearing each other to bits over the Mitterrand inheri-

The two leaders of the oppo-The two leaders of the opposition conservative parties are engaged in a parallel struggle to get out in front; and in the process they are both lurching to the right in pursuit of the votes of the National Front, whose ideas are apparantly appropriate of by an artimative engaged. ently approved of by an aston-ishing 32 per cent of the popu-

gle for the presidential elec-tions of 1995 may look entirely at odds with the result of the general elections in 1993. Polls suggest the consarvatives should defeat the socialists by should deteat the socialists by a large majority. Yet if one adds up the likely abstention rate (say, 35 per cent), the ecologists (10-15 per cent), and the National Front (say, 15 per cent), it is possible that all the mainstream parties between them could represent less than them could represent less than

half the electorate.

This would be a classic recipe for further alienation by the disenfranchised, for extraparliamentary disturbances and instability, and for a fur-ther trend towards an unbri-

dled presidency.

The solutions offered by Mr
Jacques Chirac, leader of the
Gaullists, include a shortening of the presidential term from seven to five years and an increase in the use of popular referenda. But others, including the editor of the newspaper Le Monde, urge a shift to pro-portional representation, as a way to overcome left-right arisation, secure parliam tary representation which more closely reflects the elec-torate, and create the possibility of moderate government

ity of moderate government majority near the centre.

It is not clear if there would be a parliamentary majority for any such reform; a great deal will depend on how France reacts to the prospect of the quasi-federal European treaty coming up for signature at Maastricht. As things are now, President Mitterrand probably has a ready-made parnext year, even if the communists and the Gaullists

vote no. But the position could look quite different a year from now, if the structural flaws of the system are not treated. If Gaullists and centre-right UDF parties are still chasing hard after the votes of the National Front, in the run-up to the general elections of 1993. France could he facing the prospect of a rightwing govern-ment that was anti-immigrant, anti-European and unrepresen-

PERSONAL VIEW

The cost of equal pensions

By Bryn Davies



worth of extra pension liabilities. Reports of the cost of implementing the European Court's judg-ment in the Barber case have therefore caused real concern. The judgment laid down that pensions are pay and that Article 119 of the Treaty of

Rome, which says the pay of men and women should be equal, also applies to pensions.

A whole range of estimates has been made of the cost of bringing UK occupational pensions. sion schemes into line with the judgment. Last February the consultants Noble Lowndes said it would cost up to £50bn. In June Mr Tony Newton, the social security secretary, said it could be "...as much as £40bn to £50bn ..." Last week the Confederation of British Industry published a report which auggested a cost

lowest figure has been my own estimate of £10bn. There are two main reasons • First, there is confusion about what the Barber judg-

between £11bn and £38bn. The

ment actually requires;

• Second, the global estimates inevitably involve a lot

ambiguity in the judgment. But much of the confusion appears to be self-inflicted, with the aim of making the judgment appear to be more difficult to implement than it really is. The only point which is in doubt is whether the beneffts for members who retire after May 17 1990 — the date-of the judgment — have to be equal for all years of service, or only for years of service after that date.

But opponents of equalisation have seized upon this uncertainty and magnified it out of all proportion. They have muddled the waters hy jumping to the illogical con-clusion that if the judgment can have more than one interpretation then maybe it can have three or four.

Opponents say that those already receiving pensions will have to have them equal-ised, although this falls outtion of the judgment. They then drag not only the cost of such equalisation into the dis-cussion, but also arguments about how it would be impos-sible to administer. The result is to exaggerate the problems.

If we ignore these diversionary tactics the cost of imple-menting the judgment is much lower than most of the figures quoted above. For example, the CBI's figure on a realistic interpretation is £11bn-£19bn, the range including liabilities for prior years' service for members retiring after May 17 1990. And there are no administrative complications. But even if we agree on what the indgment requires, there is still scope for a wide range of estimates of the cost. This is partly because there is little up-to-date information about what benefits schemes provide or the extent of their current liabilities. So crudeestimates have to be made of the total liabilities of those schemes which still need to equalise their benefits.

The other reason for a range of estimates is that actuaria methods are not good at producing such figures. Actuaries produce only an approximate figure for the expected cost of a scheme taken as a whole. If the cost of individual items within the total has to be singied out, the answer becomes even more approximate. The CBI has tried to esti-

mate - in a survey carried out in June – the average increase in a scheme'a liabili-tiea when its benefits are equalised. Unfortunately only a third of those asked replied with usable information and many of the answers were produced very quickly. As a result there is the strong possibility of a bias in their data, as those who did reply may have been spurred to do so because they faced higher-than-average costs. Employers also suffer from a tendency to quote a higher cost for scheme improvements when they do not want to make them.

It is not surprising that the CRP's figures for the cost of equalising benefits are higher than mine. My estimates are obtained by detailed modelling of the cost increase in a cross-section of schemes with a typi-cal range of benefits. As a result my global estimates are generally less than those of the CBI, falling within in the range of £6bn-£12bn. This does, however, overlap with the CBI's figures, so perhaps a figure somewhere in the mid-

die could be agreed.

Whether we take my figure or the CBI's, much of the cost will be offset by the existing surplus in many of the schemes concerned. I estimate this would exceed 25bn. Even the cost which remains does not have to be met all at once. It can he spread forward, increasing total pension costs about 1 per cent of the pen sionable payroll of the employ ers concerned or 0.5 per cent, of their total payroll costs.

There is no doubt that implementing the jndgment involves a huge extra cost for the employers concerned. But even allowing for the increased cost of providing pensions in the future, it does not appear to be the insuperable burdan that opponents

claim.
The author is a director and actuary with Union Pension

A Pole from the past

■ Minutes before Polish prime minister Jan Krzysztof Bielecki cast his vote in yesterday's first free parliamentary elec-tions for over 50 years, he was preceded into the polling booth by a portly figure from the communist past.

It was none other than Stanislaw Kania, former head of the secret police. He took over in 1980 after Edward Gierek's corrupt and incompetent regime was brought down by a fiery young shipyard elec-trician called Lech Walesa. Kania, the secret policeman,

proved no more capable of running Poland than his predeces-sor. He was soon replaced by Wojciech Jaruzelski, the dour communist army general with sinister dark glasses - best remembered for the thousands of Solidarity activists he had Right years later, the Soli-

darity tortoise triumphed over the military hare. But the communists hung on to 65 per cent of the seats in the lower house of parliament. It is this guaranteed communist presence that yesterday's elections were largely called to eliminate.

But Kania's appearance at the polling station close to the sidential palace - a wealthy neighbourhood favoured by former communist party bosses – is a reminder that ridding the country of communists is not going to

be easy.
Ironically, in Bielecki's own
constituency his Liberal Congress party is likely to be overwhelmed by the neo-commnnist "left alliance" of Włodzimierz Cimoszewicz.

One more spin ■ Are soma of Britain's lucky FTV companies, which bid big money to retain their fran-chises, having second thoughts now that the celebrations are

Observer

The winners have six weeks to confirm whether they want their new licences, or indeed whether shareholders will sup-

What if, siren voices say. a winning company were to take a financial interest in an underbidder that nonetheless passed the quality test? The winner could then refuse the licence and the Independent Television Commission would have to go to the second high-

In the case of the Yorkshire franchise, for instance, many millions could be saved. Yorkshire Television won the fran-chise with an enormous £37.7m bid. White Rose got over the quality threshold but only bld £17.4m. Could Yorkshire assume the mantle of White Rose and save more than £20m

It all sounds rather plausible, hut is anyone prepared to take the risk?

Marketing fizz

■ If the British Government needs an independent expert to support its much criticised intervention in the UK brewing industry, it should give Harry Drnec a call.

Drnec (pronounced 'Der-nek'), who learnt his business at US beer giant Anheuser-Busch, believes that the recent radical changes have made It much easier for an outsider like him to break into the UK

Tonight, he launches his latest US import, Miller Genn-ine Draft, onto Britain's unsus-pecting taste bnds. Having seen sales of his imported Mexican Sol bottled beer explode from 83,000 cases two years ago, to 2m in the current year Druec is confident that MGD. the number two in the US mar ket, will do even better. "People may be drinking less, but they are drinking better" says the 45-year-old marketing man.



"Well, at Saturday's car-boot sale we sold the car."

Despite a severe recession and a declining beer market, demand for imported beers is spilling out of the wine bars and trendy restaurants, and nto the high volume pubs. Under the old regime it would have been "very difficult to crack the brewers' barriers" says Drnec, noting that he now sells Sol to close to three quarters of the UK's brewers.

Out of order ■ Once again it seems to be

open season for BT-bashing and Observer would hate to miss the chance of a few more cheap shots at one of corporate Britain's most attractive sitting ducks. When you run a high-profile monopoly making profits of over 53bn a year, fat executive salaries are a natural target,

especially when the bulk of a shrinking workforce is hav-ing to make do with far more modest pay rises. But whatever the merits of chairman Iain Vallance's latest pay increase - and it will be

interesting to see whether it means he has sacrificed his chances of a knighthood -Observer feels duty bound to dismiss one entertaining rumour. The pizno-loving BT chairman has not insisted that a grand piano, or even a hon-ky-tonk, be installed in his hotel bedrooms on the forthcoming round-the-world road show to promote the BT II share sale.

Sounding faintly disgusted, one of Vallance's aides said yesterday that any such suggestion was "so far from real-ity that it was extraordinary."

Lost for words ■ For a politician who bills

himself as an internationalist the man to lead Japan through turbulent times in world affairs - Kilchi Miyazawa. Japan's new prime minister, has suddenly become remarkably shy about showing

off his linguistic skills.

Problem is that some Japanese think Miyazawa is too internationalist and his ability to speak English fluently has become something of a political liability at home. "Speaking English here is apparently not very popular," he told a bunch of foreign correspondents at a recent English language press conference. Fortunately, he still seems

willing to alip into English when his interpreter makes a mistake in translation.

Wisecrackers

■ Observer's recent request for more jokes has led to a flurry of entries, but sadly most of them are either old or unprintable. The offer of a bottle of the finest malt whisky, for each one pub-lished, still stands and one will soon be heading in the direction of the Grampian Irish Social Club for its latest offer-

ing: "Do two Irish jigs make one "No, but silly jokes do." Keep 'em coming.

Watson, Farley & Williams have moved from Minories to a new map reference but you won't need a compass to find us;

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It us for a change at

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Sir Roland Smith has just lost one in unfortunate circumstances but still

have more than their knight

boods in common; they all hold non-executive directorships in

companies which value their

experience, skills and contacts.

directors has always been con-troverstal, but a new era of

shareholder activism - com-bined with a recession which

The role of non-executive

has 10 others; Str Patrick Wright has picked up four since leaving the Foreign Office in June; while Sir Peter Walker and Sir Patrick Meaney are happy with half a dozen each. Bryn Davies Drawn from across the spec-trum of industry, the Civil Ser-vice and politics, the four men

1990. And there are a sistemative complication.

But even if we want the real state of the real state estimates bare to to the total liabilities to the total liabilities to the total liabilities to schemes which sime to equalise their beach.

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has tested management skills to breaking point - has reignited the debate about Britain's boardrooms. At present, there is not even a consensus on what non-execcalled. Some companies refer to "outside" directors, others prefer "independent" but most still stick to the rather negative appellation "non-execu-tive". However they are described, about 95 per cent of Britain's largest 500 companies now have non-executives on their boards - twice the level recorded a decade ago. Underlying the entire debate is o public perception that many businessmen joining boards still expect to ride a gravy train rather than to help edvance the cause of effective corporate governance. Now the Committee on Financial Aspects of Corporate

Governance, comprising senior industry and City figures, is drawing up its own blueprint on good business practice.

The plan is to devise clear, self-regulatory guidelines on all aspects of corporate man-agement. It will attempt to codify the role and responsibilities of non-executive directors in a way which will command the support of companies and of the investing institutions.

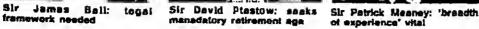
To make headway, the committee will need to examine City-style custom and practice in recruitment and deployment, in particular;
• The ad hoc approach to the

appointment of Independent directors, too often left to the chairman and merely rubber-stamped by those he has previously brought in. A system which bestows the same legal liabilities on non-ex-ecutive directors as on their

executive colleagues but which leaves many unclear about their responsibilities. The lack of "good practice"

guidelines covering issues such as length of service, age and number of directorships. Sir Adrian Cadbury, chair-







Blueprint for good boardroom practice

Michael Cassell on efforts to define the role and responsibilities of non-executive directors

marily concerned with the standard of board loudership: "Up to 80 per cent of outside appointments to the boards of large British companies are still made on the old boy not-work. That does not necessarily mean the kes of death but

in often does."

Ms. Marjorie Mowlam,
Labour's City spokesman,
agrees that too many directors hold too many posts and are still appointed by their mates or brothers", but she welcomes the wider use of non-executive directors to provide an additional element of internal

accountability
A survey by the Top Pay Research Group, which monitors directors' pay and coudi-tions, indicates the likely scale of rewards. The going rate in Britain for non-executive direc-tors is put at about £15,000 a year for up to 20 days' work. But Mr Peter Brown, Top Pay's chairman, emphasises that the most successful directors can charge up to £1,500 a day extra if they pot in additional hours,

Doubts as to whether many non-executive board members justify such rewards have been further fuelled by a new sur-vey from Merton Associates, management consultants,

among non-executive directors

From Mr Phillip Oppenheim

Sir, Graham Vance (Letters,

October 23) has learned vcry

little from post-second world

war experience If he thinks

that government intervention to compel British Airways to

buy Rolls-Royce engines would

oc in either company's long-term strategic" interests.

Giving national champions

cosy, protected, guaranteed domestic markets is a recipe

for complacency, not prosper-lty. After all, this policy was tried, without much success,

up to the late 1970s. in con-

trast, Rolis-Royce doubled its

1980s and, notwithstanding

it reveals confusion over roles and responsibilities

at 250 of Britain's largest pub-lic companies, and suggests they feel under-used, poorly briefed and frustrated. Threequarters claim they have no say over the appointment of chairmen or chief executives.

"In that case, they should resign," says Mr Grabam Mason, company affairs direc-tor at the Confederation of British Industry, "All directors are treated alike under the law, so non-executives must assert themselves. If they cannot play a full, informed role they ought to lcave."

Though some non-executive directors have occasionally flexed their muscles - they were instrumental in toppling Sir Roland Smith at British Aerospace - critics like Slr Adriun Cadbury claim many still have no clout. Sir Adrian, who also chairs Pro Ned, formed to promote

the value of non-executive directors, says they should be recruited far more widely and subjected to a vigorous selec-tion process. More competitiou for posts would improve qual-The qualifications of some

leading non-executives are nev-ertheless beyond question. Few sharebolders would doubt the value of Sir John Harvey-Jones, former fCl chairman, Sir Colin Marshall, deputy chair-man and chief executive of

Protected environment provides no

problems currently afflicting aerospace manufacturers, the

company is probably now in hetter shape than at any time in the post-war period. Mr Vance's thesis that share-

holder pressure prevents long-term planning may also

be a little simplistic. The

Dutch clectronics company, Philips, has effectively been

protected from its sharebolders and hostile takeovers, yet its performance has been poor.

Japan's consumer electron-

ics companies by comparison, have succeeded not merely because they had access to

non-equity capital, but more

because they used their capital and organised their invest-

guarantee of economic success

British Airways, and Mr Richard Giordano, chairman and chief executive of BOC Group, all of whom serve on the board of Grand Metropolitan, the food, drink and retailing group,

as non-executive directors. Sir John, who became chair-man at ICI thanks to the support of the group's non-execu-tive directors, ways his Grand Met colleagues are "a flercely independent bunch" who have influenced the company's development.
But not all nun-executives

are seen in a positive light. Institutional shareholders were not impressed last month when Hanson, the acquisitive conglomerate, appointed three new non-executive directors who were seen as unlikely to wield much Influence over Lords Hanson and White.

BTR, the industrial holding company, bas been attacked for drawing its six non-executive board members from within its own ranks. It rejects claims they cannot, therefore, be independent, and says their backgrounds make them much more useful to the business.

However, Sir Patrick Meaney, who includes the chair-manship of Rank Organisation among his six non-executive posts, says "breadth of husiness experience, rather than detailed expertise, is the most important thing non-executives

ments more effectively than their western rivals. Nor,

tions, have companies like Sony, Matsushita and Toshiba

been sheltered by state-di-

rected procurement. Rather, they have had to compete fiercely in the most competi-tive market in the world.

The British economy may

have problems, but the solu-tions lie with reform of educa-

tion, transformed attitudes to industry, and a more stable economic environment, rather

than a return to quasi-inter-

ventionist policies.

Phillip Oppenheim, House of Commons, London SWIA QAA

can bring to the board table". There are plenty of sugges-tions for inclusion in any code intended to cover the activities

of non-executives:

Sir David Plastow, chairman and chief executive of Vickers - a non-executive director at Guinness when Mr Ernest Sounders was removed

says retiring executive directurs should not, in the cause of vigorous management take on non-executive posts within their own company. He retirement age for all directors. Mr Keith Miles, finance director of Etam, the clothing group which has a majority of non-executive directors on its board, says there is a case for electing them for fixed periods. Mr Blenyth Jenkins, director of corporate affairs at the institute of Directors, supports the idea of time limits for non-executives. He is also keen on changing companies' Stock Exchange listing requirements to ensure a minimum quota of non-executives.

The loD is not alone in press-ing for the wider use of inde-rendent directors. It wants more of them on audit committees and says there is an obvi-ous role for them in fixing the pay and conditions of executive directors. They could also have a bigger say in appoint-ments to the board. But despite mounting pres-

sures to codify the role and rights of non-executives, there is widespread reluctance in the City, at Westminster and among companies to inject a prescriptive note into an area corporate management where self-regulation has tradi-

tionally prevailed.

One voice calling for the law
to help lay down clear, operating guidelines is Sir James Ball, whose three non-execu-tive posts include the chair-manship of Legal & General.

He says the British system of unitary boards blurs executive and non-executive roles: There has to be a separation in the processes of broad direction and of management; the two distinct roles should be enshrined in law."

Sir James does not want con-"But the law should require that independent directors form a majority and that every company has audit and remuneration committees on which Sir Adrian Cadbury hopes his committee's recommenda-

tions - a draft report should be ready early next year - will be the catalyst for voluntary change, People like Sir James Ball are donbtful: "We need changes hut I believe they will have to be imposed. Otherwise we will just carry on in the same old mess."

Samuel Brittan

TV auction outcry for wrong reasons



greeted the recent British television franchise awards John Major to Margaret Thatcher. But in most cases it was for the wrong reasons. The defect of the allocation

ontery which

was not that it was a competi-tive auction, but that it was not competitive enough. The previous franchise holders were not entitled to a licence in perpetuity. Most of the complainers fail to grasp either the principle of due process or the price mechanism as an exam-ple of that process.

ple of that process.

Mrs Thatcher was upse: that
Bruce Gyngeli's TV-am lost the
breakfast franchise to Sunrise

in this case genuinely the
highest bidder. She was apparently "heartbroken" because of
TV-am's successful efforts to break the stranglehold of the television unions. A competi-tive auction is not, however, a way of rewarding past services, but a deliberately impersonal method of allocating a scarce resource. There has always been a conflict between the for-mer prime minister's head, which supports impersonal rules, and her beart, which wants to decide the result in

particular cases The real trouble was that whether because of the draft-Ing of the 1990 Broadcasting Act, or the interpretation of the Independent Television Commission, the latter body was able to award contracts to those who were not the highest bidders, without a word of explanation. There were 40 applications for t6 licences. In half of these the highest bidder did not win. The result was the highest processed of some combizarre spectacle of some com-panies losing their licences to higher bidders, while others retained theirs despite putting in a low hid. For instance, Granada Television bid £9m compared with £35.3m from Phil Redmond's North West

I have kept off the subject of broadcasting for most of the time since the Peacock Com-mittee on the subject, of which I was a member, reported in

1986. One reason is that the government adopted some of the letter of the Peacock recommendations, but little of their spirit. A majority recommendation which was accepted was that there should be a competitive tender for ITV licences. The committee was emphatic that if it were decided "to award to a contrac-tor other than the one making the highest bld it should be required to make a full, public and detailed statement of its reasons". A weaker form of this stipulation did get into the 1990 Broadcasting Act. But I knew that the British establishment would get round that.

For if there is one thing that all establishments hare, even more than due process and open competition, it is giving explanations for their much-prized exercises of judgment It did not require great hril-liance to predict what would happen. For the supposedly

All establishments hate explaining their much-prized exercises of judgment

new ITC is hard to distinguish

by the naked eye from the old independent Broadcasting Anthority. It still occupies the same piece of prize real estate in the Brompton Road, just opposite Harrods, fts chief executive, David Glencross, was an influential senior official in the old IBA.

The way the ITC avoided giv-ing reasons for its judgment was simplicity itself. The high bid losers were rejected either because they failed to satisfy a quality threshold (a concept not to be found in Peacock), or because the FTC did not believe that the bidder would be able to maintain (for financial reasons) the services offered. They therefore did not cross the threshold beyond which rea-sons would have to be given. But I must confess that, for

all its absurdities, I still prefer the pseudo-auction we have had to the unabashed discre-tionary awards of the former while gains from the increase in the number of licensees acting as middlemen for the smaller independent producers, which will increase both diversity and competition. There could be a greater gain still if some of the losing applicants carried out their threat to take the ITC to court to try to force it to give reasons for its find-ings. But one cannot expect companies to litigate for the public good, unless it seems worthwhile commercially.

Much bumbug is spoken about broadcasting "quality"; and the word "philistine" is held in reserve as a blunderhuss by the broadcasting estab-lishment. We should refuse to be bullied. The object of televi-sion and radio should be to meet (and also, of course, stim-ulate) public desires, not to sat-isfy the self-esteem of those who produce or channel pro-grammes, still less the ideas of Reithian public figures.

Purely advertising financed

programmes are not the best way to satisfy minority or spe-cialist preferences, which a genuine market would try to meet. The next important event in broadcasting is the allocation of the fifth terres-trial channel (which the estab-lishment told us was technically impossible). Policymakers interested in a better-performing market would build in a preference for a subscription channel (if possible with pay per view) among bldders for the new channel. But none of the power brokers around Whitehall was interested in any such innovation.

There is indeed scope in a civilised society for the provi-sion of programmes in the arts, sciences, bumanities, newa documentaries and many other fields which cannot pay their way either by advertising or by subscription. Bodies such as BBC2 and Channel 4 exist for this very purpose; and Peacock proposed a much broader Arts Council of the Air. There is nothing, bowever, to support a grey in between mess in which the BBC feels it has to compete in the mass market for pulp, while commercial entrepreneurs have to go through the motions of providing a dne ration of what the regulators

LETTERS

Dividends just too high

From Dr Kenneth J Lyall.
Sir, Lex is too kind to UK finance directors ("UK tax", October 24) in allowing them the excuse of the "recession"

for the build up of unrelieved ACT balances. Excluding companies with a large proportion of foreign earnings, surely dividends have just been too high, given the low levels of cash profits being generated. Kenneth J Lyall. Wolter Scott & Partners, Millburn Tower,

Gogar. Edinburgh EH12 9BS

Conclusions incomplete

Sir, As a potential benefi-ciary of the new government

V O Vesma. Vilnis Vesma & Co. 17 Church Street, Glos GL18 1PU

Fax service

From Dr John Wells.

From Mr V O Vesma.

energy survey scheme, Peter Harris is brave in his criticism (Letters, October 23), but his conclusions are incomplete. True, the Department of Energy lacks ideas; more importantly, it lacks the will to resist the lobbying of consultants and manufacturers.

Sir, John Banham, CBf direc-

tor-general ("CBf hits at lack of support for manufacturing",

October 22), would be wrong to

draw too much comfort from

the fact that the UK's share of

world manufactured exports, following several decades of decline (including a particularly sharp fall 1979-84), appears to bave stabilised since the mid-tone (though

since the mid-1980s (though

there is no evidence it has

increased – at least when

The fact is, in today's world

characterised by growing

inter-penetration by producers

of one another's domestic mar-ket - data on world export

share provide only limited

information. When operating

measured at constant prices).

From Mr Roger Adams.

Sir, Norma Cohen's article, "Frustrated investors in Peps flock to M&G" (October 22), remarked on the success of the recent launch of the M&G Income Investment Trust. The size of this launch (£246m) dwarfed the previous largest launch of a new investment trust, that of Drayton Asia (£100.5m) in September 1989. The success of the M&G

issuc is the best news for the investment trust movement for many years. Surely it is also very good news for the govern-ment's efforts in encourage more investors to take out Personal Equity Plans?

its ability to hold on to and

share, but also its capacity to

retain domestic market share

and withstand the competitive

6.0 per cent (compared with the

Case for relaxing Pep investment trust restrictions

adviser, Mr John Spiers, is quoted in the article as claim-

Mr Spiers should rethink his view that "most investors are perfectly happy to have only half their money in a collective

suggests that there is actually significant demand for a full Pep linked to a collective vehicle. If the government is really serious about encouraging more investment in Per-sonal Equity Plans it should immediately relax the restrictions concerning investment allowed into investment trusts at any time and not through the anomaly of the new issue

Roger Adams, Mutlow Hall,

An independent financial scheme". The M&G experience

ing that "consumer demand for a relaxation in Pep investment rules is nil". Surely this is not correct. It is also nonsense to say that "the secret of M&G's success reflects the fact that the group's fund management skills had not bitherto been nvailable to those seeking investment trusts". M&G has successfully managed two split-capital investment trusts

UK performs badly measured by total manufacturing output in internationally npen mar-

OECD average, excluding the UK, of +34.6 per cent) - with the UK coming in 20th out of 21 kets, the manufacturing performance of UK plc needs in be measured not only in terms of OECD countries. As a result, my calculations suggest that even extend nverseas market the UK's share of total OECD manufacturing output - the true test of international comparative success - has fallen from 6.5 per cent in 1979 tn just

challenge posed by imports.

The only measure of success 5.2 per cent in 1991. alnng both these dimensions is In fact, UK manufacturing's performance bas been so dis-mal that the level of output the behaviour of total manufacturing output - wbether destined for home nr nverseas reported for August 1991 was some 0.2 per cent below that for August 1974 - an unprecemarkets (the only two possibilities!). By this measure, the UK has performed peculiarly badly over the past decade compared dented trend of zero growth over 17 years - during which, incidentally, domestic expendi-ture on manufactures rose hy with its main OECD rivals. Thus, since 1979, UK manufacturing output has risen by just roughly 38 per cent.

market share may mainly reflect successful specialisation in the limited number of indus-trial branches where UK-based producers continue (thank God) to maintain a competitive presence in global markets: bet atagnant output nverall, against a background of growing domestic speeding on manufacturea, has inevitably

entailed a rapid loss of domes

tic market share - and this has to be weighed in the scales, as well. John Wells Faculty of Economics and Politics, University of Cambridge, Austin Robinson Building Sicowick Apenue. In these circumstances, the Cambridge CB3 9DD

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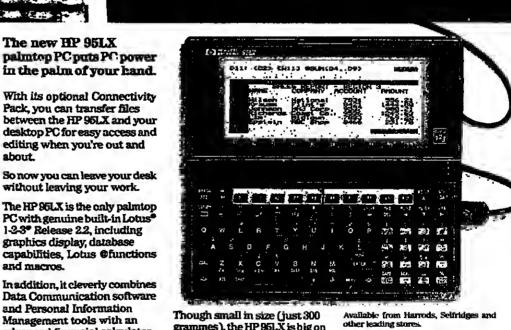
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Exit polls suggest months of political uncertainty after first free parliamentary vote

No winner emerges in Polish election

By Anthony Robinson and Christopher Bobinski in Warsav

POLAND is likely to face weeks of political manoeuvring to form a coalition government after yesterday's first free par-liamentary elections. No clear winner has emerged, according to an early computer projec-

The projection, based on an exit poll, showed the Democratic Union, headed by Mr Tadeusz Mazowiecki, the for-mer Solidarity prime minister, as the largest single party. But it was projected to have only 14.5 per cent of the total vote, giving it 76 of the 460 seats in the lower house of parliament.
The rest of the vote is scat-tered over the political spec-

trum, according to the com-puter projections, with former communists and their allies doing better than expected. The broad dispersion of the vote is expected to complicate formation of a coherent coali-

tion government around an agreed political programme. Poland's IMF-supported economic reform programme is likely to come under strong political pressure. This is because parties keen to reflate the economy and ease strains on ailing state-sector industries and on farmers are likely to control a majority of seats in

the new parliament. The former communists in the Democratic Left Alliance were projected to win 9.5 per cent. The communists' former allies in the countryside, the Polish Peasants' Party, were

also put on 9.5 per cent. The pro-Solidarity Citizens' Centre Alliance was projected to win 9.5 per cent. Catholic Electoral Action, a chnrchbacked party which supports Solidarity, was put on 9 per cent. But the Liberal Democratic Congress, headed by Mr Jan Krzysztof Bielecki, the out-

Jan Krzysztof Bielecki, the outgoing prime minister, did worse than expected, with a projected 7.5 per cent.

The projected results reflect deep disillusionment with two years of bruising economic and social change. President Lech Walesa, who led Solidarity's challenge to communism, hlamed the projected election outcome on divisions in Polish society.

society.

Looking tense and grim, he told a television interviewer: "We could have expected this, considering that so many problems have remained unsolved. Society has become very

The definitive results are not expected until tomorrow. The computer projections were based on exit polls by the Ger-man INFAS institute at 600 of the 20,000 polling stations. Voting got off to a slow start

as rain and early winter snow discouraged potential voters. Opinion polls suggested voters were reinctant to chose between a confusing array of more than 100 parties and political groups.



President Walesa, who can select the next prime minister, votes in Gdansk

UK may lease trains from France

By Richard Tomkins, Transport Correspondent, in London

BRITISH RAIL (BR), the state-owned railway, is plan-ning an unprecedented venture into the French financial markets to cut the cost of acquiring part of a £100m (\$171m)

fleet of freight trains.

If the UK government agrees, BR will lease the trains from French banks instead of buying them outright. Tax allowances on the deal mean it will be indirectly subsidised by

French taxpayers. The French government is unlikely to object to the scheme because the trains -3,500 container wagons to be used for cross-Channel freight services when the Channel tunnel opens - are expected to

be made in France. At present, tough Treasury rules prevent state-owned BR from obtaining finance for investment from any source other than the UK government.

The Treasury argues that government loans are cheaper than any private sector sources of finance and it is BR's duty to borrow from the cheapest

Government loans, however, are strictly rationed, and with BR's internally-generated revenues badly hit by recessioo, the railway has been left with insufficient funds for invest-

Mr John Prescott, transport spokesman for the Labour opposition, last week said BR should he given the flexibility to bny badly-needed trains through leasing deals in the way that many Continental railways do. The government

It now emerges that BR is already in detailed negotia-tions with the Department of Transport about the scope for increasing its financial flexibil-

BR is under particularly severe pressure on the Channel tunnel freight trains because they are to be ordered jointly with continental railways

with continental railways which want to arrange the purchase through a leasing deal. The Treasury's main objection to leasing deals is that they are only cheaper than government finance if the banks which underwrite them obtain tax allowances which they would not otherwise have. Banks get th

because, if they buy trains or other capital equipment, they are able to offset part of the cost against their profits for tax purposes. But the loser is the Treasury, which forgoes tax it would otherwise have

received Under BR's plan, this objec-tion would disappear. BR's

share of the train order would be bought by a French bank and leased to BR. Tax relief would be obtained at the French government's expense. resulting in a net saving to BR

and the UK taxpayer.
The scheme would not result in an overall increase in BR's maximum permitted spending, but would improve its cashflow and release funds for urgently-needed investment in other parts of the railway.

BR would not confirm details of the scheme yesterday, but said it was "actively pursuing" the scope for changing the leasing rules with the Depart-

ment of Transport.
The trains to be ordered are special small-wheeled platform wagons which will allow continental-sized containers to be carried on Britain's railway tracks, where clearances are

Since the beginning of the year, the prospects of British Sky Broadcasting, the satellite telavision venture in which Mr Murdoch has a 50 per cent stake, have also markedly

Mobutu rejects calls for political compromise

By Julian Ozanne in Kinshasa

PRESIDENT Mobutu Sese Seko yesterday hit ont at western countries which, he said, wanted his head at any price, and rejected political compro-mise aimed at rescuing Zaire from chaos. He told western journalists at his riverside residence

40km from the capital, Kinshasa, that he would stay in power. He appeared unaware of the critical situation facing the country of 35m people.

Mr Mobutu, who has ruled
Zaire ruthlessly for 26 years, directed a hroadside agains

western "threats and hlack-mail", saying that "nobody can dictate policy to me". Since riots and looting began last month, France, Bel-gium and the US have put intense pressure on Mr Mob-ntu, the 61-year-old, mission-educated son of a hotel cook, to share power with the oppo-sition. But, Mr Mobntu con-firmed widespread beliefs that Washington had disagreed

with Paris and Brussels at a high-level meeting last Thursday, where it was proposed to send a delegation to persuade Mr Mobutu to flee Zaire. The president's statements came hours after an explosion destroyed the offices of Elima. an opposition newspaper. Throughont yesterday, angry crowds gathered ontside the offices. The editor accused Mr Mohntn of having ordered forces from the Special Presi-

dential Division to carry out the bombing because of the paper's anti-Mobntu stance. Amid signs of mounting urban terrorism between the pro- and anti-Mobutu factions, there were reports of attacks on the homes of two opposition leaders, incinding Mr Kengo wa Dongo, president of the Union of Independent Democrats and former prime

Armed soldiers were ont in force patrolling Kinsbasa amid fears that violence could erupt again. Hnge coils of barbed wire were strewn across the roads around the prime minis-ter's office - the scene of vio-lent clashes last week between security forces and supporters of Mr Etienne Tshisekedi, the opposition leader sacked as prime minister by Mr Mobutu

eight days ago.

That decision sparked riots by Tshisekedi snpporters. Fears remain that the president intends to dig in end cling to power. "Change is me." Mr Mobutu said. "The process of democratisation is me." Asked if Zaire was sliding towards civil war, he said: "I hope not, for the people's sake. That is not my impres-

Contrasting tales of war and peace

ONALD REAGAN won the Third World War without firing a shot, remarked an shot, remarked an intelligent economist from Brown Brothers Harriman at its economic hriefing last week (still bullish, but only just). "Still, what we have is a postwar economy."

Most dinner-table epigrams

go in one ear and out the other, but this one stuck, for the 1945-1990 comparison is a fruitful one. At first sight, the similarities are quite surpris-ing. The public finances of the winning side are nearly as stretched as before, and the economies and infrastructure of the ex-communist world almost as devastated by mismanagement and under-investment as those of Germany after the bombs. As at that time, we on the winning side are working on a currency reform, and worried (with more justification this time) about a prospective recession. Meanwhile, the losers demand an opportunity to trade their way back from ruin.

Cne for history repeats itself? The prospect does not look too good. The sad irony is that while hindsight points the right way, it is a path we will find difficult to retrace. The economics of an unfought war, or even of a bitter but limited one, are different from those of an all-out national crusade: people will make willing sacrifices for victory, hut not for intervention or containment. In financial terms, then, Rea-

an's exemplar is not Franklin Roosevelt (who was incidentally a sound finance man, in war and even in pre-war reflation), but Lyndon Johnson. Johnson lost Vietnam and Rea-Johnson lost Vietnam and Rea-gan won Star Wars on credit. Meanwhile. normal peacetime political economy continued (the normal aim of policy is to make the voters feel good). The post-war balance sheets shows the results. After the Second World War, governments were in debt, but private citizens had large financial claims in cash and bonds and the disbonoured British post-war credits: there had been no opportunity to spend. After the credit-card wars, by contrast, households

debt as the state. The material counterparts of the book entries are also a stark contrast. After the real war, there was a vast pent-up demand for goods and construction: where the plant to meet these demands was in good shape, there was e long expansion, where demands could oot be met, inflation was the danger. This is still the

threat in the 'defeated' Soviet



By Anthony Harris

Union; but in the mature market economies, debt pressures or market saturation restrain demand, and threaten defla-

One part of the post-Second World War solution looks obvi-ously appropriate: there have been demands for a new Marshall Plan to meet the recon-struction needs of the postcommunist world. However, it is not just the lack of an inspired ex-draper from Missouri which prevents us from following the Truman example. The Marshall credits were offered in a low interest entioffered in a low interest envi-ronment, backed with a liberal trade regime to allow the borrowers to earn their keep.

n our present world of debt overload, risk premiums are high; and in glutborders are seen as a threat to rioting farmers and 'racist' factory workers. Our local debt problems, except in the UK, are largely confined to the public sector, and are in no sense imminently threatening, yet under the rubric of a future monetary union, they get end-less attention. This is looking the wrong way. The anti-infla-tionary bias of the Bretton Woods system was entirely appropriate to the post-Second-World War world of shortages and monetary overhang; a similar bias in Emu could make itvery difficult to handle a world of plentiful supply and inadeonly grudging measures to avert the real political dauger - the possible collapse of the Soviet system. Meanwhile, our pious minister of agriculture bleats ebout the "threat" of Polish raspberries: We should be ashamed of ourselves. While we devote ourselves to Euro-bombast and deflation, the US is setting a different example restricted, unfortunately, to

its own hemisphere.

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The free trade area with Mexico, and the increasingly open Mexican borders to tis stabler Latin neighbours, are creating a new dynamic of opportunity across the Atlantic. Some of the Latin betrowtic. Some of the Lain borrowers are already achieving a debt work-out, and the long-term chances for the US are looking up.

This wisdom is not the result of deep economic thought, but of political pressures — exactly the same pressures, at bottoms which are producing such upin

which are producing such ugiver reminders of racism in east. Germany and France. The free trade area is designed to stati-lise Mexico politically, and keep its citizens willingly at home. Perhaps the refugee

threat in Europe is too new ta-provoke such clear thought among our rulers.

There is nothing, though, to-prevent private investors, thinking clearly, and the man-ter multiples guesses that their ket multiples suggest that they are doing so. On e long view,
Wall Street looks rather more
attractive than the European
bourses, because thanks to the Fed, growth is being led for the tima heing by manufactured net exports; productive invest-ment is bound to respond in due course. This is in principle, a problem-free scenario for the private sector, and will huy the public sector time to work down its Third World War

If things work out as well as seems possible, the Americans' should erect a large statue not to President George Bush, who, remains an economic fumbler, obsessed with trivialities, but to President Salinas of Mexico, with some laurels too for the American development economists who have helped so, many of the Latin American governments to bring some governments to bring some order out of long chaos. The hemispheric recovery will be led where it has to be led - by a turn round in the worst problem economies, and achieved largely by themselves.

The good news for us in Europe is that the government in the more hopeful east European economies, and

European economies, and indeed in Russia, have noticed this. They hope that the Group of Seven will in the end mobineed to get reconstruction going, and will no doubt listen politely to all the advice which comes with such loans. But when they really need practical advice on how to manage the transformation of a ruined command economy into a market economy, they turn to the people who have shown the way – the ministers and advis-ers of Mexico. That's more

News Corp considers raising up to \$900m

By Raymond Snoddy in London

media group, is considering raising \$800m \$900m in new money before the end of the year. Proposals have already been put to New York banks and have received a favourable

No decision has been taken. hut it is considered probable that Mr Murdoch will decide to go for a new financial package even though this could involve a furthar few percentage points' dilution of his family

MR RUPERT Murdoch's News Corporation, the international now stand et just over 41 per

The fact that Mr Murdoch and leading US banks have been talking about the possibil-ity of a financing of up to \$900m is an indication of how much has changed since the completion of the company's more than \$7bn refinancing at the beginning of this year.
All the signs are that News
Corp believes it can meet its refinancing obligations from its existing cash flow without raising new money, and it has the option to do nothing. There is, however, a strong feeling that, if market conditions do not deteriorate, it would make sense to take the opportunity to raise more capital and take on some longer-term debt.

The exact balance between raising new capital through a rights issue and debt has not yet been decided. Although Mr Murdoch's media empire is still being affected by recession in its main markets, particularly in the UK and the US, there

have been a number of positive developments for News Corp in recent months.

Since January, Mr Murdoch has raised nearly \$1.5bn, which includes the proceeds from the disposal of his US magazines to Kohlberg Kravis Roberts for

McDonnell seeks orders for rival to 747

By Martin Dickson in New York

McDONNELL DOUGLAS, the US aerospace group, is to start taking orders for its proposed MD-12 wide-bodied aircraft.

The announcement does not mean that the financially stretched company has yet secured the funds to build the aircraft. But the fact that the board is prepared to give its civil aviation subsidiary the go-ahead to seek orders suggests its negotiations to raise the cash are on track. The programme is estimated to cost \$4bn. The MD-12, a three-engined aircraft able to carry 375 passengers up to 9,000 miles. would compete on inter-conti-

nental routes against the Boeing 747 jumbo jet.

McDonnell, which strained its balance sheet ploughing some \$3bn into the develop-ment of its recently introduced MD-11 wide-bodied jet, has been seeking international partners for the MD-12, notably in Japan and other Asian coun-

It said that while no agree-

ments had been reached, it was talking to "potential partners which could offer low-cost, high quality production and

region.
"Discussions include risksharing contracts on the MD-12 and substantial, but minority,

access to markets in their

equity investments in the cor poration's commercial transport business." the company added. It hopes to make a firm decision to begin the MD-12 programme in 1992. Boeing has signed agreements with several Japanese companies to provide parts for its twin-engined 777 aircraft, which is due to come into service in 1995 as a rival to the MD-11, but the equity stake proposed by McDonnell would carry American-Asian aviation ties a significant step further.

McDonnell Douglas is also the largest US defence contractor and the Pentagon would almost certainly want foreign stakes limited to its civil aviation side, based in Long Beach,

New Japanese leader aims to solve trade disputes

Continued from Page 1

the 101 votes representing the results in local party ballots. The surprise was the strong showing by the second-placed of the three contenders, the Mr Michio Watanabe, who secured 120 votes and will demand that his faction be properly repre-sented in a new cabinet. While Mr Miyazawa must answer to the powerful Tak-

eshita faction, which furnished the necessary votes at yesterday's contest, he wants a "more mature" relationship with Washington in which Japan will be able to say "no' more often, particularly on

trade issues "There will always be trade disputes," Mr Miyazawa said last night, "and we must try to solve them one by one." He

would like to sign a pact with President Bush during the US leader's visit here in late November that would mark the

beginning of a new era. 'It will be the 50th anniversary of the Pearl Harbour attack. I would like to make this an occasion for a review of the past 50 years and a preview of the next 50 years," he said. Mr Miyazawa, a former finance

minister, has already indicated that he wants to stimulate Japan's economic growth, which has slowed in recent months.

He has announced support for a cut in official interest rates, and suggested that a public investment package be drafted with the aim of renoveting infrastructure and of kick-starting the economy. IBD's two feeds, CUPID and

The Price Service, are now

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Monday October 28 1991

SECTION III

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Integrating the two German states of the post-war period is proving far more difficult than

anticipated a year ago when the historic merger took place. Despite the hopes it raised, it is too soon to assume unification will definitely succeed, writes Quentin Peel

First year hangover

THE worthy analysts of Germany's live leading eco-tionic institutes see it as an "historic challenge". Chancelfor Helmut Kohl says his country is at a "turning point in history

There is no doubt about the import of the moment. One year on from German unification, and the success or failure of the process is very much in-

It is a process of importance well beyond the burders of the mated Federal Republic If it succeeds, it can show the way to transformation of the coltapsing ex-socialist economies of eastern Europe and the for-mer Soviel Union, it can lay the basis for a re-united Europe, bringing together the East and West in a single European home. If it fails, it will undermine the powerhouse of the European economy and perpetuate the divide between rich capitalists and poor (ex-)

If it succeeds, it will also leave Germany more again as the dominant power in both halves of Europe, filling a vac-num in the East left by the disintegration of the Soviet Union and increasingly flexing its pulitical as well as economic muscles in the West.

The historic challenge cited by the analysts of the German economic institutes is the challenge of financing the erea of nuntication; to create self-sustaining growth in the east of the country, without tipping the entire economy into infla-

tion and recession.
All this has to be done against the twin social pres-sures of wide-pread unemploy-ment and a drive for almost

When the German people celebrated their first anniver-sary of undication on October the nation

nian who knows he has written his name into the history books for seizing the opportunity of reunification, did his best to put a good face on it. We are experiencing an

instant equalisation of living standards with the west.

2, it was a half-hearted event. It was overshadowed by the fear of unemployment in the east, by the resemment at the cost of unification in the west, and by the immediate shock of a sudden upsurge in racist attacks against immigrants. underlining the new tension in Chancellor Helmut Kohl, the

epoch-making change under the banners of freedom, democracy and the social market economy," he declared in the

historic Hamburg stock ile urged his electurs to recognise, "for all their gruni-bling and whining," that for the great majority, living conditions had improved.

The truth is that the perfor-

mance of the old West German economy over the past year, faced by the huge challenge of unification, has been quite remarkable, showing the real depth of its strength. Gigantic transfers from west to east have been made already withnut the western economy overheating. Soaring demand for western goods has been met hy German industry, with costs kept down hy a surge in imports from the rest of the recession-struck world econ-

An extraordinary wave of immigration from the cast -

some 25m since 1989, most of them eastern Europeans of German origin, and east Germans before unification been absorbed without any serious rise in unemployment,

Since the summer, however, that first boom time fur the west has been over and a prolonged period of painful adjustorent has begun. The gloomy scenario was graphically spelt out by the five economic institutes in their autumn economy survey. They warned of the growing

conflict between rising wage pressures in both east and west, a failure to restrain public spending outside the cast, and the rigid insistence on tight monelary policy imposed by the German Bundesbank. More precisely, they warned that the pressure for wage

equalisation in the east was

undermining all improvements analysts say. The tax and in productivity. The result, they predicted, would be a social security on western workers would fuel new wage slowdown in private investment, and an increasing reli-ance on public spending. inflation and encouraging the Bundesbank to raise interest

in spite of the growth of small husiness in the east, from a very low base, there has been little progress in privatis-ing the hig old heavy industries, the major employers. The Treuhand privatisation agency has transferred 720,000 jobs to the private sector, but another 2m are still in its care, and they are in the industries most difficult to dispose of, such as heavy engineering, chemicals

The danger then would be of an east Germany locked in a vicious circle of reliance on state hand-outs from the west. creating increasing resentment in that part of the country, the

unification Against this, the government

insists that the upswing Is coming in the east. Having promised that the pain would be bearable, Chancellor Kohl is forced to Insist that all is for the best, and the worst will soon be past. As the pain continues, and sharpens, the political backlash is palpahle.
The whole process means

that Germany, the body politic as well as the business community, has become increasingly introverted. And yet the pressures for a more active external policy remain acute. For a united Germany has become once more the swing power of Europe, the intermediary shove all others between east

Initial fears in the rest of the European Community that Germany would turn eastwards appear to be unfounded. If anything, the unification process has bound the government to its constant vision of an integrated, federal Euro-

pean Community.
"Our freedom and our well heing are inseparably bound to the European Community and the Atlantic alliance." Mr Kohl declared to his Unity Day address. "Together with our friends and partners, we want to make our contribution to the huilding of the United States of Europe,"

And yet the proximity of an eastern Europe in turmoil is proving profoundly uncomfortable. Germany is concerned, but wishes to share the burden. The reason is not simply financial. "We are acutely aware that

demands there, pushing up

rates and clamp down on

money supply.

Meanwhile, the federal gov

tax increases.

the chance to be the dominant power of eastern Europe is a grave temptation," according ernment would prove unable to cut any major spending pro-grammes affecting individual interest groups - like the still swollen state subsidies to agrito one political analyst, "We don't want to be tempted." That is why Germany - at least the present ruling genera-tion - remains so profoundly committed to its Europeao vision. That and the fact that Europe has been good for Ger-many, politically and economi-

culture, steel, coal-mining and shipbuilding. With the oeed for public subsidies in the east still rising, the prospects for a significant reduction in the without the European Com-DM130hn public sector deficit are slim. The temptation would munity, we might never have been able to get our re-unificabe for across-the-hoard, and tinn," according to a senior diplomat, "Mr Gorbachev might have been the only pertherefore inflation-stimulating, Thus the institutes argue, grimly and urgently, for the son prepared tn agree."

negotiation of a new political consensus, precisely to finance



The soaring mood of last October captured by a Franco-German crew at

the Brandenburg Gate

POLITICS: astride the new Europe; electorate's post-unity blues; Hurra Deutschland end TV satire; rebels who sank without trace; a new CDU star

SOCIETY: racist backlash tests democracy: massive transfer of benefits to the former DDR; east's social fabric shows strain; medieval town that wants to be an airport; uncertainty for rail and postmen

......Pages 6-9 ECONOMY: darker prospects; the big sell-off: interview with the SPO's linance spokesperson; repairing the wreckage; unions on the carpet:

..... Pages 10-11 FINANCE: Franklurt tested as a cash-raising centre; Bundesnank's role in

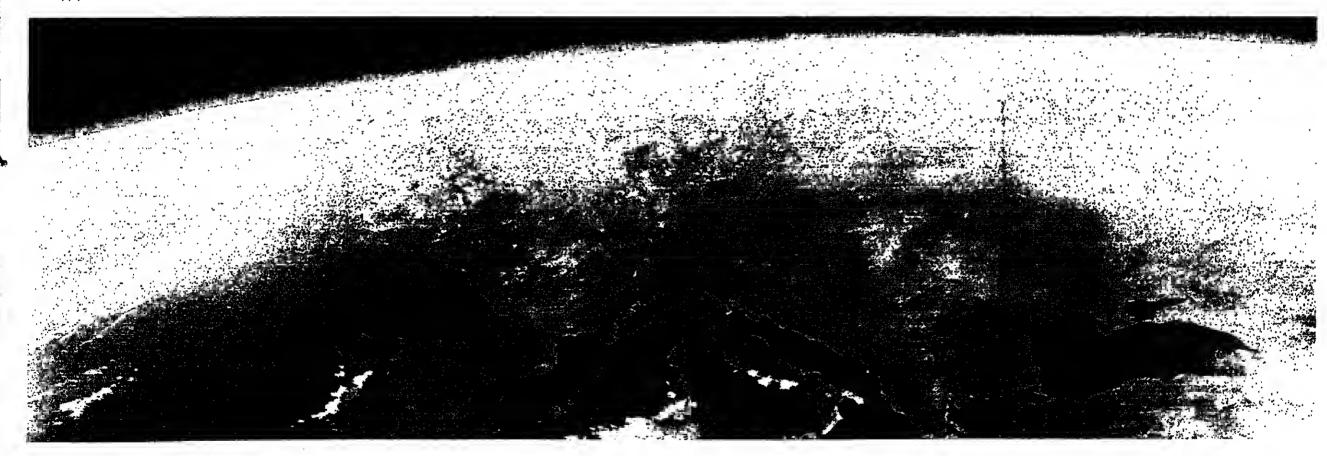
national reconstruction

...... Pages 11-12 INDUSTRY: year of stimulus; engineering, chemi-cals and motors; Veba and Volkswagen go east; a case of Prussian whisky; Berlin's prospects; environmental clean-up slows

. Pages 12-14



Ready to cope with Europe's maritime challenges



The Vulkan Group - the leading German maritime concern - has evolved into a high technology enterprise combining efficient shipyards, electronics, system technology, industry and service divisions.

Well aware that the oceans, not space, will be of dominant concern for mankind in the dawning Oceanic Century, Vulkan Group has - in the course of the last 3 years - increased its total equity capital by more than three times and

restructured itself completely to be a forceful partner within a united Europe which is beginning to understand its common maritime interests, hitherto largely neglected due to the lack of a systematic approach. European maritime competence, cooperatively enhanced and applied, will be a key to an appropriate role of European industry in these advanced, swiftly progressing and essential technologies.



1 feeds



UNITED Germany means a Germany once more at the fulcrum of Europe, balanced between East and West. It is Germany's fate and Germany's natural position. But it is scarcely a comfortable one. The collapse of the empire in the East, the Soviet empire, has thrust Germany almost overnight back into the role of dominant power in central and eastern Europe. For there is today a power vacuum in the region, and the re-united nation is heing sucked back It is not just a question of being the dominant economic power, the higgest focus of trade and the leading source of investment. It is apparent in more political ways.
In early September Mr Heinz
Riesenhnher, the Minister of

Research and Technology in Bonn, hosted a meeting of all the research ministers of the

former Comecon countries to

discuss what ahould be done to maintain their former joint sci-

entific research programmes. Germany called it because the former East Germany was

obviously as involved as any.

Germany is the

western power most

concerned by the

threat of turmoli in

eastern Europe

"What we didn't realise was

how grateful they would be," according to a senior official in

the Ministry. "Nobody had brought them together since

Comecon began to collapse. They had lost touch, and their

After the crash of the Soviet empire, Germany feels the pull of a growing power vacuum, writes Quentin Peel

Uneasy giant astride Europe's political fault line



Swept along by a tidel wave of change, President Gorbachav welcoming Chancellor Kohl in Moscow in July 1990

the East. It is the first stop for economic migrants, as it is already finding to its cost.

"When you are closest to the cooker, you feel the heat," a Foreign Office diplomat said. "We cannot feel relaxed about what is happening in the Soviet Union."

The prospect of being a dom-inant regional power in central Europe once more is seen in Bonn as a very dangerons temptation. For they are con-scious that it could prove more seductive to a new generation of politicians than the tradi-tional post-war German role of playing equal partner among many in hoth Nsto and the European Community. And they are equally absolutely adamant that the seduction will not work. "Unification has increased the temptation for some Ger-

programmes were grinding to a mans to look in other direchalt. We were simply being tions, in the sense of keeping dragged into the leadership role the Soviet Union had abandoned." their options open," according to one senior diplomat, "I cannot exclude that in the long Because of its geographical run, in the next generation of position, Germany is also obvi-ously the West European German politicians, that thinking might gain the npper hand. But I still think that even the power most concerned and most affected by the threat of political and social turnoil in next generation will see what is good for Germany."

CZECHOŚLOVAKIA BULGARIA

And the truth is that the European Community, and Nato, have been extremely good for Germany. That is a very real reason why, against what many British sceptics may helieve, a very large majority in Germany is solidly "communautaire", pro-EC, and thoroughly federalist to boot.

The immediate effect of unification, therefore, has in a curions way heen to strengthen Germany's commitment to the EC, not to weaken it. It has certainly fuelled the current passion to "deepen" the Community, through European political and monetary

Marie American Marie Const. Mich. Mc

The Germans are not British. They are genuinely com-mitted to Europe. They committed themselves as a sort of counter-offer to German unification." according to one top official dealing with EC affairs. "Our ailies helped us in this process. The French even made a linkage, although it was not direct. A unified Germany needs to be integrated into the Community, not only for Ger-man good, hut also for

Yet there is clearly a different strategic emphasis in Bonn (and Berlin) to that in Paris

The French want to deepen the Community, hut not to enlarge it. They are very suspi-cious of letting in too many new members. As an integra-tionist, one should sympath-ise," the senior diplomat says. The British want to enlarge

the Community, but not to deepen it. They would let them all in, and turn the EC into a free trade zone. It would be the ultimate victory for Maggie. But that would lead to its gradual disintegration.
"We are in the middle. We

have always refused to choose between Nato and the EC. We have always told the French the two things can be done together. We also refuse to choose between deepening and widening. It is the only logical position for us. We want both." That is why, apparently against the national interest, Germany is prepared to sacrifice its precious Deutschemark for some future European currency, in the process of European monetary nnion, in exchange for something called European political union, which is likely to be much less substantial.

What is most noticeable in Germany is the absence of real debate over those crucial quesdefate over those crucial ques-tions of policy which the nego-tiations on EMU and political union imply. The fact that monetary union is probably the single most substantia step in transferring national sovereignty, and control over real political issues like taxation, to the European Community, has scarcely been hinted

The crucial question of how it will be possible to incorpo-rate the chronic delicit spenders of southern Europe into a

There is obviously a different strategic emphasis in Bonn and Berlin from that in Paris and London

single monetary system, with-ont undermining the future currency, is ignored. "European integration is taken for granted, in the sense that it is considered a natural ingredient of any German for-

ingredient of any German foreign policy." is one diplomat's
explanation. "As long as it
moves in the right direction it
is OK. They will start to
scream only when it founders."
When the finance committee
of the German Bundestag
finally began to debate EMU in
September, it was clear that
the debate was simply about
how it should be done, and
never for a moment questioned
whether it should be done at whether it should be done at all - as the similar debate in Westminster would have budget deficit, it was politely never mentioned.

Now the whole question in

Germany is whether the need to accommodate the hesitant British will not undermine the whole deal at the EC summit in Maastricht in December.

The EC committee of the Bundestag is threatening to link the questions of EMU and political union – to insist that an inadequate deal on the latter will mean no deal on the former

Brussels process in Bonn, and not just with the British. Yugo-slavia has been a crucial fac-tor, highly indicative of the new tension in German policy. The result has been an extraor-dinary personal animosity



and a month later, Soviet troops begin pulling out at Neuruppin, East Germany

between Mr Hans-Dietrich Genscher, the Foreign Minister for 17 years and therefore by now the very personification of German foreign policy in all its twists, and Mr Hans van den Broek, the puritan and school-masterly Dutch Foreign Minis-

Yugoslavia is a classic ques-tion of the East on which Ger-many feels far more involved than any other EC country, with the possible exception of Italy. The civil war has been covered in Germany with maximum media exposure, and with overwhelming sympathy for the case of Croatia and Slovenia in their battle to break away from the Serbs. There is barely a whisper of under-standing for the Serbs them-

Mr Genscher, the ultimate weather-vane politician of domestic politics, a man of acute political instincts, had begun by being statesmanlike and even-handed in his atti-tude, but rapidly switched to

demanding pro-Croatia intervention when he saw what his domestic constituency wanted. He urged diplomatic recognition. He urged intervention through a peace-keeping force. He went very publicly out on a limb against the consensus of

After the EC's failure to pacify Yugoslavia, German politicians and public see it as still a feeble institution

his EC colleagues, and above all against the line of Mr van

Most German diplomats would admit that their govern-ment was out of line in seeking to intervene in an impossible situation, and that the EC con-sensus was instrumental and entirely belieful in letting sanity prevail in Bonn. But politi-cians and the German media are far more of the opinion

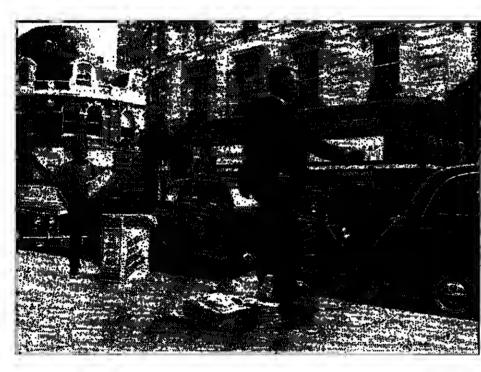
that Brussels has failed as a peacemaker, and it goes to show that the Community is still a feeble institution.

The question now is whether those frustrations with the ponderous and consensus-building practices of Brussels, and frustration with the footdragging British in failing to turn the Community into a genuinely federal structure, will undermine Germany's very real commitment to the whole west European integration process.

To date, there is no sign at all of that in Bonn, in the political and diplomatic establishment. There is a slight wavering in the business community, particularly over monetary union. There is a little in the east, where the temptation to turn to central Europe is mevi-

But the consensus is still overwhelming. Germany has done very well out of the European Community so far, so why change?

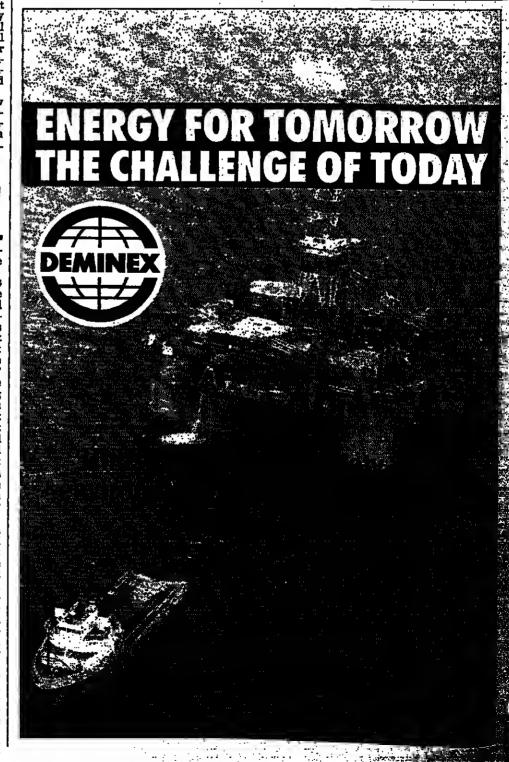
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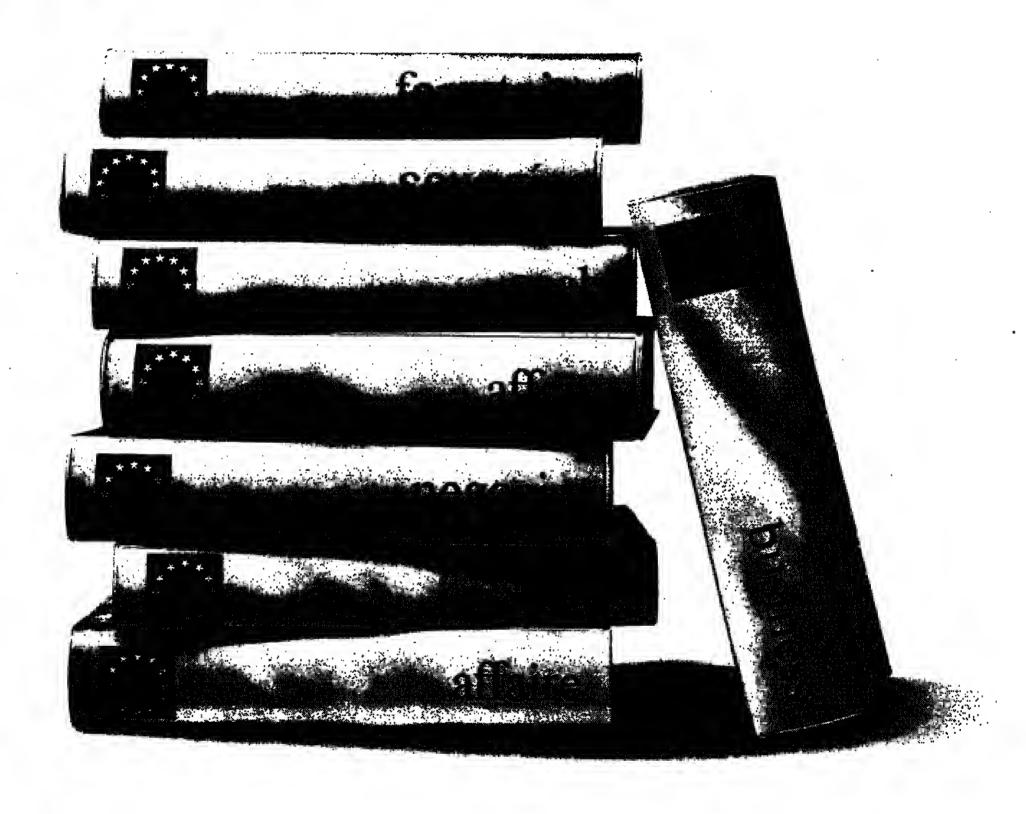
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S Quentin Peel

What's uncommon about the Common Market?



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necessarily lead

to boundless

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up. The Single European Market is no longer just a vision. It will soon become a reality.

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gration. Some of these impediments are small and some are large.

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LIKE virtually every other aspect of the united Germany. its politics are still divided The two halves of the nation

have almost entirely different political agendas. Their differing economies dictate quite dif-ferent economic policies: the westerners want less taxation: the easterners need more state spending. On top of that, both sides of the 40-year divide still boast very different views of

No wonder the political parties are twisting and turning in confusion, for they have to reconcile the conflict under one national umbrella. They are trying to behave as united parties, but finding the process well-nigh impossible.

A survey in September of the top political priorities in east and west (the ZDF television Politbarometer) gave e graphic illustration of the divide. By far the biggest issue in the east was unemployment, cited by 60

In the west it was mentioned by only 12 per cent. Next most important was the state of the economy (20 per cent), third was pensions (15 per cent) and fourth was the housing market

and rents (13 per cent).

In the west, the biggest issue of the day was the inflow of asylum-seekers and foreigners cited by 45 per cent, and not even mentioned as an issue in the east. Second big issue for the Wessis was simply called the "problems of unification", which worried 40 per cent, and third came protection of the environment (16 per cent). The question of tax rises to pay for unification was ranked right up alongside unemployment.

The great irony of the post unification elections in December, 1990, was that Chancellor Helmut Kohl and the Christian Democratic Union (CDU) got it wrong - and won. Mr Oskar Lafontaine of the Social Democrats (SPD) got it right, and

Perhaps that is too simplistic, for Chancellor Kohl got one thing overwhelmingly right. He guessed that unification Politicians are struggling against a widespread sense of post-unity blues, writes Quentin Peel

Under the surface, a deep split persists

it regardless of the cost. When the conp happened in the Soviet Union in August, the entire nation breathed a sigh of relief that the job had already been done, and could not be undone. There was no way that the confused and demoralised Soviet troops who remain in the east can turn round now and stay (unless they are trying to defect from an empire which no longer

It was the cost of unification which Mr Kohl got very wrong. He promised them in the east that it would all turn round very fast. He promised them in the west that they would not have to pay any more taxes for it. He was wrong on both counts, and he won.

Mr Lafontaine fought a miserable campaign. He warned of the bitter costs to be paid, and nobody loved him for it. He relied on the historic strength of his Social Democrats in the former strongholds of the east (Red Saxony was always a force to be reckoned with), and he failed to realise that his party had been partly tarred

GENERALLY apeaking the Germans are politer to each other and more respectful of euthority than the British.

There is e long and honourable tradition of sophisticated political satire in the cabaret clubs in west and east but not much blowing of raspberries et euthority. There is no equivalent of

Private Eye (although there is a rather feeble satire medezine for students celled Titanic), or cartoonist Gerald Scarfe. There is, however, a German TV equivelent of Spit-ting Image, called Hurra Deutschland, which, at least Initially, eppears to confirm that the Germans and robust political abuse do not mix. Yet something hes been stirring in the German soul. judging by the Westdeutscher Rundfunk (WDR) in Cologne, where Hurra Deutschland le made. The programme is now

quite enjoyable and a great

used to be, eithough still con-siderably milder than the British Spitting Image. Trying not to sound too self-congratulatory, Mr Hugo

with the brush of the collapse of socialism. But now, almost a year on,

Mr Kohl's ruling coalition is starting to pay the price of its victory. His CDU in particular has seen e drastic decline in tts fortunes in the east, and is languishing in the west as well. In the country as e whole,

the combined popularity of the CDII and the Bayarian-based Christian Social Union (CSU) stood at 34 per cent in Septem her, according to the ZDF poll. one per cent down on August, while the SPD was well ahead on 45 per cent. But that figure combined a continuing drastic decline in the east for the CDU (down five per cent to just 25 recovery in the west (of which more below). The SPD was up five points in the east to 44 per

The slump in CDU popularity, above all in the east, has led to a drastic, and rather bru-tal, shake-up in its leadership. Mr Lothar de Maizière, leader of the eastern CDU and deputy to Mr Kohl, was unceremonia ously dumped, when rumours of possible involvement with



Six months into unity, Leipzigers attack rising unemployment

the dreaded East German Stasi secret police were allowed to fester. He never got on with the Chancellor, and his westwith his eternal pleading for the downtrodden Ossis.

Hence the dramatic promotion of Dr Angela Merkel (see facing page), who only joined the party in August, 1990, and is now being put forward by Mr Kohl as his new deputy. She is scarcely e dynamic new leader, but she is an acceptable

one, and she is also a force for peace and unification in a deeply divided structure. And at least she is not tainted by

the past.
The fact that the CDU inherited the structure and assets of an old "block party" is clearly both a blessing and e curse. It gave the party a running start on the SPD, whose eastern pre-decessor was forcibly united with the Communist Party into the Socialist Unity Party (SED). Now the social democrats are fighting to get some of their party assets back. On the other hand, the SPD has not inherited a discredited structure, and can start from scratch. So on the one hand the CDU has a membership of perhaps 80,000, and 25 per cent popularity, and on the other the SPD has around 30,000 members, and 44 per cent sup-

All the old block parties are losing members steadily. The Free Democrats (FDP), who once boasted more official members in the east than in the west (about 170,000 at unification) was down to barely 90,000 at the last count. More significant, none of the parties is finding it easy to attract new members. "People don't want to get into parties any more, according to one outside

observer. In the east, the dearth of new members seems to be a function of deliberate rejection. In the west, the same phenomenon is happening, but there it seems to be much more a reflection of materialist apa-

A frequent criticism of Chan-

than in Britain. It was more difficult, for example, for Hurra Deutschland to have a go at Saddam Hussein during the Guif War. But the biggest restraint, according to Mr Göke is self-censorship based

party as much as from outside

it, is that he has allowed a ger-

ontocracy to rule, cutting

down all possible rivals, and

therefore allowing both gov-

ernment and party to drift.
Nonetheless, he does have an

heir apparent in Mr Wolfgang

Schauble, currently Interior Minister and soon to be party

leader in the Bundestag.
The problem is that Mr Schäuble, who is also 49, is

wheelchair-bound since an

assassination attempt just one

year ago, and in spite of a

remarkable recovery, there

must be uncertainty over his fitness for the highest office.

has been e key figure in identi-fying the issues needed to

revive CDU popularity. In

recent months, that has been above all the issue of the asy-

There is no question that Germany has faced an unprece-

dented pressure of immigration since 1989. Most have been immigrants of German origin

from eastern Europe and, until

many. Today, however, the

on e view of what the public

unification, from east Ger-

Mr Rühe, on the other hand,

will find acceptable. Self-censorship there mey be, but actual cansorship from his superiors has never hap-pened, claims Mr Göke. in one famous incident it was suggested from above that Mra Rita Süssmuth'a otherwise naked puppet body might have its breasts blotted out, Mr Göke eald he accepted this idea because it Improved the sketch; outsiders saw it as censorship.

between Spitting Image and Hurra Deutschland must be put down to national differences in sense of humour and taste. The Germans, like the British, like to laugh at the misfortunes of others and like to see the great and good portrayed as bumbling fools, probably less brutel," says Mr Göke.

Much of the difference

largest number are asylum seekers from all over the world, seeking to exploit the country's relatively liberal asy. lum laws. In reality, a significant minority are simply eco-

nomic immigrants. Mr Rühe denies vehemently that the issue has anything to do with racism - although he admits that the wave of skinhead attacks on migrant hostels are racist. It is rather, he says, deep resentraent by many Germans at the abuse of the liberal constitution.

Mr Rübe and Mr Schäuble have hammered away at the need to tighten up, at the need to change the constitution, and it appears to be paying off. in September, the party popularity recovered by one per cent. The SPD, in contrast, has

started to slip.

The problem for the latter is that they are split, between a national leadership which will not contemplete serious restrictions on asylum, and local leaders, like the big city mayors, who have to cope with the results on the ground. The result is a visible confusion which is electorally damaging. Given their solid lead in the

opinion polls, the SPD seems to be suffering from more countsion than it deserves. A run of good state election results has left it with a majority in the Bundesrat, the upper house of the German parliament. But even that is a mixed blessing. The tension hetween state interests and those of the federal party can cause confusion on more than simply asylum. On the government's planned increase in value added tax, for example, the national SPD leadership is pledged to oppose, but the state governments, who will get a nice share of the increased revenue, are tempted to accept.

Leslie Ci

73 FEE

The other problem for the social democrats is their lack of an obvious Chancellor candidate to oppose Mr Kohl Mr Björn Enghölm, prime nimister of Schleswig-Holstein and carrent party chairman, is proving personable and intellig but he still does not seem to

measure up to the "big man". What the party must be hop-ing for now is that by the pert elections in 1994, Mr Engham will have grown into the lob, while Mr Kohl is still dragged down by the economic aftermath of unification.

What Mr Kohl must hope for is that at least one part of his prediction comes true: that the massive economic and industrial might of the west proves enough to turn the eastern economy round by 1994, and he can reap the benefit.

TV satirists are becoming cheekier, writes David Goodhart

A spit in the eye of authority

Göke, deputy head of enter-tainment at WDR, says: "Whet we have done recently might not seem very new in the Anglo-Saxon world but Germans heve never seen any-

Portraying the Chancellor Kohl puppet, wearing e huge condom for a hat, as e sexshop owner, or showing the rether goodle-goodle President of the Bundestag, Mrs Rite Süssmuth, making a speech about pornography without eny clothes on, is a email revolution.

It also seems to be a popular one. In some of the most recent 12 programme runs of the series, which has been going for three years, Hurra Deutschland has been claimdeal more aggressive than it ing up to 30 per cent of the viewers, higher than the Brit-Ish Spitting Image. it even has an official fan

club which organises trips to meet the 20 people who work on the show and see new puppets being made. "We had e dreadful start. The critics were unanimous in describing us as terrible and the viewers seemed to agree with the crit-ics," says Mr Göke, But it has gradually improved, becoming more self-confident and dar-

The critics are now divided

50:50 end the ratings are usuelly between 20 per cent and 30 per cent. Unlike Spitting Image it has always aimed for a relatively broad spectrum of viewers, which le cleerly a reetraining influence in a country not used to public mockery of political leaders, it elso concentrates less on politics than Spitting Image. Although it clearly borrows a lot of ideas from the British show, and the puppet types

relationship with the British version and pays no royalty to

But it is still easily the most expensive programme produced by the entertainment department at WDR, costing about DM15,000 per minute (for e 14 minute show). For that reason, says Mr Göke, it might soon be off the eir. If it is scrapped the controversy it has generated, whipped up by German popular press, will cleerly have played a

In Germany's highly politi-cal TV system the WDR is dominated by Sociel Democrat sympathisers and is considered among the most liberal of the regional stations, of line. Mr Göke says that the politicians In Bonn have not reacted publicly to the pro-

have no doubt told Mr Göke'e superiors how tasteless they

Mr Göke does get a huge mail bag from the public eplit about 50:50 for and against - including e fair emount of ebuse from extreme left and right. "I've been called everything from a Nazi to a Jewish pig," he says. There have also been several attempts to take the programme makers to court. The most recent case wae brought by an animal rights group compleining about a spoot public Information item showing people how to get their pets squashed on the

motorway. The legel context - the German constitution plus WDR's own rules on respect for all races and religions is probably more restrictive

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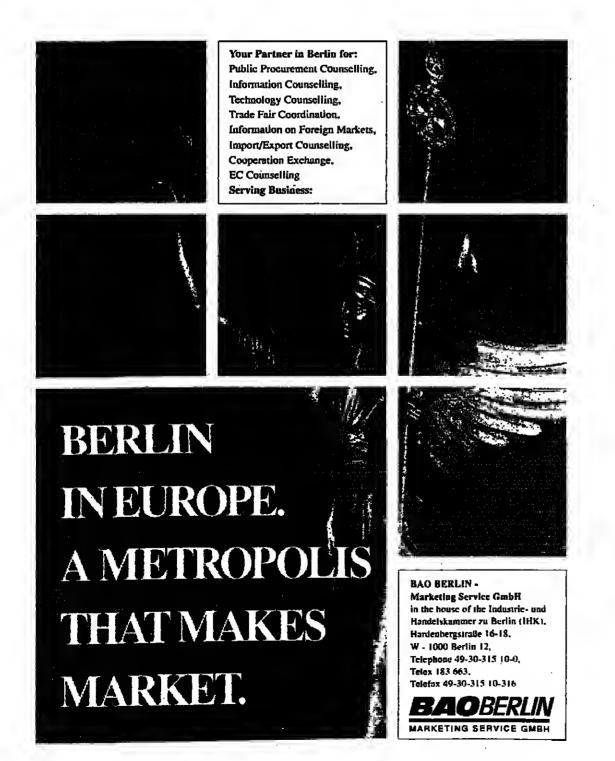
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THE woman chosen by Chancellor Heimut Kuhi to be his future deputy, in the Christian Democratic Union (CDU). the dominant partner in Germany's ruling coalition, comes across os a refreshingly thoughtful, even self-effacing

character.

Dr Angela Merkel is the new face of the new east Germany untainted by the glitter and self-assured superficiality of so many hardened western politi-cians. You ask her a question, and she thinks carefully before

replying. She sees herself as a pragmatist, not a visionary. Some-times I am accused by young people of having no vision, she says. I have a dissurbed relationship with this concept of vision. We have had enough 'visions'. I think that it is most important to do some-thing practical.

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Ever since my childhood life has got ever more difficult, and so I am thankful lor every practical step forward."

She has been catapulted to

the top in a remarkably short time, like so many of the new figures emerging from the cauldron of unification. Less than two years ago she was a scientific worker in physical chemistry at the old

East German Academy of Sciences At the end of 1989 she lomed the Democratic Awakening one of the early democratic movements to spring up as Communist rule disinte-grated. By February 1990 she was its press spokesman.

After the March elections

she became deputy govern-

ment spokesman for Mr Lothar

From state chemical worker to the top ranks of the CDU in less than two years

de Maiziere, the first non-Communist prime minister in the East. In August that year, she joined his party, the CDU. In December, 1990 she became a member of the united German parkament, in Janu-

and youth affairs. Now barely 10 months later she is candl date to be deputy leader of the party. She takes it all with remarkable equanimity. "I owe my position lirst of all to the fact that I represent the new Bundesländer," she says.

"It is just a matter of chance

that I also come from the

younger generation (she is 37 years old) and that I am o

woman. But that obviously makes a good impression, too. They are helpful side-effects, so to speak.
"I think that I bring a partletilar experience (to the party) which makes it possible to understand better what is hap-

pening in the new Lander." She sees herself very much as standing in the middle between the two mutually-incomprehending sides of the

Ossis and the Wessis.

"I think I can do something to interpret between the two, she says. "I think that I came through the whole process of German unity relatively unharmed. I have done well, I have got a new role, and don't feel any need to build some sort of counter-reaction to the other side, out of sheer bewilderment.

The daughter of a protestant clergyman, she believes she always managed to live with a sort of schizophrenia under the old regime, keeping many contacts with friends and relations in the West, and therefore hav ing a reasonably realistic pic-ture of ilfe in the outside world. "I think what we are suffering from in Germany today is that everyone has a

partleular image of one

another, but they are far from the reality. The east German cannot understand that the westerner is also touchy about things, and has his own fears.
"And the westerners are learful, they see the easterners as being too demanding and to vehement. "Dr Merkel is being

brought into the leadership of

the party to replace her old

'Giving something to Europe is not, as the English think, a loss, but an enrichment'

mentor. Mr Lothar de Maizière.

pushed out ostensibly for his suspected contacts with the dreaded East German Stasi, the ecurity police. In reality, de Maizière was more a victim of the struggle

between the uld members of the eastern CDL and the new, seen as too identified with the old order, when the CDU was a sanitised and touthless opposi-

tion to the Communist Party. Can she heal the wounds left by his departure? She is not sure she really wants to. "I have too much respect for him," she says. "I learned so much from him."

The party in the east, she says, is only just coming to terms with "what it wants for itself. We always lived as antia particular system. That was our raison d'être. We have for-gotten bow to do things for ourselves. We never had the opportunity."
What about the pre-occup

tions of the west? For example, is the European Community a relevant institution to people of the east. "There's no doubt it is important for us." says, "especially for us Germans. In the DDR we had a disturbed relationship with our national identity.

"In England you seem to think you are giving some-thing away to Europe. That doesn't cause me any problem. I find it almost an enrich-ment." Just on one crucial issue she is worried. "I experienced monetary union between



The uncharismetic Dr Merkel: a long pause before replying

the east and west," she says. "I see what huge problems have been caused by that. I worry when I hear about the European monetary union. I wonder if the same sort of problems might not be caused

rad Michael Lehment, the 46-

year-old economics minister of Mecklenburg-Vorpommern who managed his family's nationalised drinks company

nationalised drinks company under the Communists.
His reputation, though, is strongly hound np with the future of the erisis-wracked shipbuilding industry in his state. He fears it could lose up to 40,000 out of the 50,000 ship-

yard workers still employed

Mr Lehment is convinced that

agriculture in the state, which

employs 200,000 people, can compete favourably with the

West only by retaining suffi-

ciently large sized farms run

Ministerial raward for

a building engineer

who negotiated the

treaty with Bonn

on a European scale Yet at the end of it all she seems an irrepressible optimist. "You see, I keep saying to myself, now I've survived cialism, nothing worse can happen to me."

Leslie Colitt reflects on the lack of local leaders where the communists once ruled

Quentin Peel meets Angela Merkel, a rising star of the CDU

Pragmatic newcomer with

her eye on the ball

Victorious dissidents who lost their role



De Malzière: tragic

tries, suffers from a debilltating tack of young, home-grown talent in the major political parties. What it does have is an abundance of older, compromised politicians whose careers were carved out as obedient officials of the old "bloc

The (East) Christian Democrats, Liberal Democrats, National Democrats and the Peasant's Party were llitle more than puppets of the rul-ing Socialist Unity (Commu-

nist) Party. Ironically, the east German dissidents who beiped toppie tbe Communist regime and formed the nucleus of the New Forum movement in the autumn of 1989, were quickly pushed into the background by the west German parties and their east German partners. Opposition leaders such as Mr Konrad Weiss of Democ-

racy Now, Mr Gerd Poppe of the Initiative for Peace and

Human Rights, Professor Jens Reich and Mr Reinhard Schult of New Forum never seriously considered becoming the leaders of post-Communist east Germany, Only Mr Weiss and Mr Poppe retain a degree of political influence as members of the Bundestag.

The absence of credible local leaders explains why an import from west Germany, Mr Kurt Biedenkopf, a 60-year-old Chris-tian Democratic (CDU) politician, was chosen to head the government of Saxony, east Germany's most populous state. Mr Biedenkopf has achieved a popular standing which contrasts sharply with the decline in the popularity of his former rival, Chancellor Kohl, who removed him as chairman of the CDU in the

But even Mr Biedenkopf, provocative thinker and a loner in his party, was in no hurry to purge the Saxon CDU of its old guard, Mr Arnold Vaatz, the 36-year-old former

dissident who until recently headed Mr Biedenkopf's chan-cellery in Dresden, urged a fas-ter cleanup of the East CDU. Aithough recently pushed aside to become environment minister, he is regarded as a man with enormous potential

The crisis in the East CDU came to a head last month. In response to growing protests hy new members of the Party in the East, the CDU in Bonn initiated a purge of the Eastern leadership. A leading victim wos Mr Lothar de Maizière. unquestionably the most tragic figure in east German politics. The former East German Prime Minister, who was rewarded after unification with the post of Deputy Chairman of the CDU under Mr Kohl, resigned after a hitter squabble

with the Party in Bonn.

Shortly afterwards, Mr Klaus
Reichenbach, chairman of the CDU in Saxony, also stepped down under pressure from

zière had long been regarded as a liability for the national CDU. He was unable to explain away persistent charges that he was a Stasi informer while a lawyer in east Berlin and a prominent member of the Prot-estant Church's lay leadership. But he also hit a raw nerve with the CDU in Bonn by accusing It of riding slipshod over

east German sensitivities. Mr Kohi retaliated by choosing as his new deputy Ms Angela Merkel, former deputy spokeswoman for the de Maiziero Government. Since last January she has headed the Ministry for Women and Youth in Bonn. The Chancellor clearly hoped to be shie to stem his loss of popularity in

the East with her help.

It is dehatable, though, whether the 37-year old pastor's daughter, who is a trained physicist, can live up to his expectations. Her support for the conservative position in the abortion debate gained her at 38 years of age another of Mr Kohl's east German Wunderkinder, was rewarded for negotiating the unification treaty with West Germany by his appointment as Transport Minister.

Formerly a construction engineer in Wismar, he served in the old East CDU but explained later that he took part in clandestine discussions within the Party ou restoring a market economy in the East. As the negotiator of the unity treaty he gained a reputation of being the most professional, Western-style politician in east

Germany, He survived massive accusations by the media that he personally influenced the award-ing of restaurant sites on the east German Autobahn to a Dutch investor. The charges could not be proved. The liberal Free Democrats (FDP) have a strong contender for a post in the national lead-

ership of the Party in Mr Con-

on a cooperative or private basis. But the agriculture ministry in Bonn is apparently not keen on preserving the existing large-scale farms in east Ger-

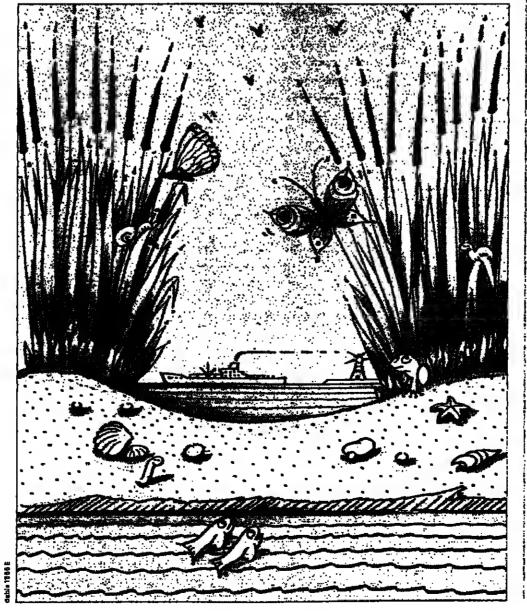
many. While native east Germans head the governments in three out of five east German states, Mr Manfred Stolpe, the Social Democratic Prime Minister of Brandenburg, is the only one to have gained national stat-

ure. Mr Alfred Gomulka, the Prime Minister of Meckien-burg-Vorpommern, and Mr Josef Duchac, who heads the government in Thuringia, were members of the old East CDU. Mr Gomulka still reads off lengthy speeches from pre-pared texts. The 65 year-old Mr Stolpe heads a coalition of parties in Potsdam and is a leading proponent of consensus politics. The eloquently-spoken former lay official of the Protestant Church in Berlin-Brandenburg was one of the archi-tects of the "Church in Socialism". He was also its main negotiator with the Com-munist leadership on humani-

tarian issues. But Mr Stolpe later questioned the Church's role under the Communists as well as his own initial reluctance to sup-port German reunification. His remark that east Germans had mentally still not arrived in the Federal Republic" aptly summed up the barriers which remained in the way of their integration. Mr Stolpe has been mentioned as a possible successor to President Richard von Weizsäcker or candidate for chancellor but avows that he will remain in Potsdam, the seat of the Brandenburg Government, as long as the Bran-

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Girozentrale Kommunalbank

Anti-immigrant backlash raises the political temperature, writes David Goodhart

Land of plenty where skinheads march



live in west Germany. That is almost twice the rate, relative to population, of entry into the US during the 1920s mass immigration and, apart from Israel, several times more than any other OECD or EC state takes today. Comparisons are difficult

but, over the same period, the UK has probably taken in no more than 100,000 people.

Immigration at such a rate, the highest since the immediate

ate post-war period, cannot go on indefinitely, but west Germany is a large and rich coun-try and in short bursts can absorb such numbers relatively easily. Indeed the employers economic research body, the IDW, argues that the influx is benefitting the economy, is only very rarely taking jobs from indigenous Germans, and will help pay the pensions of the dwindling indigenous population in the next century. How many of the 2.5m immi-

grants are actually "foreign-ers" is hard to say – by legal definition, probably less than half a million. More than 1m were "Ubersledler", east Germans who moved to west Gerand unification in October



thus a right to live in Ger-

of immigration has reopened the old debate about multi-culturalism and absorptive capacity, about who is a German, and, finally, about Germany's liberal asylum laws which attract a disproportionate num-ber of political and economic refugees. Or rather it should have done. In fact there has been little more than a politi-cal slanging match between centre-right and centre-left about how best to deter refu-gees.

fringe has triggered a series of copy cat" attacks on refugee homes which have been widely condemned but have found a sympathetic echo in a xeno-phobic minority of perhaps 20 or 25 per cent of the popula-

Immigration seems to rise to the top of the political agenda every 10 years in Germany. At the beginning of the 1970s the issue was about stopping the influx of "guest-workers" from Turkey and southern Europe who had been recruited in the late 1950s and 1960s to sustain the economic miracle.

In 1973 all new recruitment first generation of guest workers, especially from Turkey, did not integrate well and German law - which does not allow dual citizenship - made it difficult for many to become full, voting, citizens. The second generation often

feel that they belong neither in Germany nor in their parents' homeland. The problems associated with this dislocated minority led to a second immi-gration debate in the early 1980s. The new centre-right coalition tried to persuade guest workers to return home, with generous incentives, but few did.

Currently about 5.7m for-



eigners are permanently resicent of the total population of the united Germany. More than 4m are guest workers or their descendants, many of them born in Germany, includ-ing 16m Turks, 650,000 Yugo-

slavs, 520,000 Italians.
But an increasingly large minority are the refugees who have sought asylum in Germany from political or economic misery at home. The current immigration debate has focused on them rather than the more numerous guest workers or Aussiedler.

The annual number seeking asylum has exploded from a low of 20,000 in 1983 to an expected 230,000 in the current year. They do not, contrary to public myth, flood illegally across the now open border with Poland and Czechoslovakia. About 90 per cent arrive in the country quite legally with visitor or tourist visas and then claim asylum under article 16 of the constitution.

That article, a monument to the fact that hundreds of thou-sands of Germans found asylum abroad from Hitler's tyranny, guarantees asylum only to those who are genuinely persecuted. The number of ref-ugees who are granted official asylum is now as low as 5 per cent of applicants. However up to 40 per cent of asylum seekers are allowed to stay on humanitarian grounds or because they are covered by international agreements on the treatment of refugees, (the largest group this year, 26,000 Yugoslavs fleeing civil war, will almost all stay).

Even those who are ruled not to have a right to stay are protected, often for several years, by another clause in the constitution which guarantees the right of legal appeal against administrative decision. About one-third of refugees leave voluntarily or are thrown out by the authorities but about 1m are currently res-

ident in Germany.

Nearly 90,000 are officially recognised as asylum seekers and a further 500,000 have been allowed to stay despite failing to win official recognition. The final group of 350,000-plus are refugees whose cases are still going through the legal machinery, many of whom will eventually leave.

Many neo-Nazi skinneads make little distinction between asylum seekers and the equally
"foreign" Aussiedler. But the
law does. The 1.2m Aussiedler who have arrived in the past six years are automatically full German citizens, get eight months free language tuition and other aids to integration, and full access to the labour market and social security.

They are, on the whole, willing and swift integrators. Unemployment among the Aussiedler who have arrived since 1986 is about 25 per cent but considering that many come speaking scarcely a word of German, which excludes them from some service jobs, that is not a bad record. Having reached a peak of 400,000 in 1990 the Aussiedler flood appears to be abating. although there could be another 10m people in eastern Europe and the Soviet Union who can claim Aussiedler sta-

The number for the first nine months of 1991 was down to 160,000, partly because of new registration procedures in their country of origin and strennons attempts by the Bonn government to improve their lot where they are, But unless potential asylum seekers are put off by reports of asylum homes being fire-bombed, the chaos and civil war in parts of newly open eastern and south-eastern Europe, not to mention the Middle East, is likely to keep the number of legitimate and illegitimate refugees high.

With the burden of unification to deal with and the states.

tion to deal with and the votes of a zenophobic minority to compete for, all major parties accept that something has to be done to stop the abuse of the asylum laws. The Christian hamography insist that the the asylum laws. The Christian Democrats insist that the constitution must be changed to make the right to asylum more precise and to over-ride the right of appeal against administrative decision. They believe the persecuted should retain the right to asylum but propose adding a clause to the constitution which would authorise the government to authorise the government to

draw np a list of countries from which legitimate asylum can be sought. Applicants from non-listed countries could be

The Social Democrats say that procedures can be speeded up without changing the con-stitution (for which its support is required). Earlier this month the "proceduralists" prevailed and a new attempt will be made to deal with donbtful cases within six weeks and to throw-out immediately those who are not recognised. The Christian Democrats remain sceptical and continue to press for the constitution change.

Refugees are, of course, world problem not merely German one and Germany's procedures will soon, in any case, have to be harmonised with other EC countries if there are to be no border con trols within the EC. That will almost certainly mean a har-monisation "down" to the more restrictive practices elsewhere in Europe.

Whatever the outcome of the including liberal conservatives and greens, believe that a more comprehensive overhaul of immigration policy is required, which should start with the recognition that Germany is de facto an immigration country. They believe that the German blood policy of preference for the Aussiedler should be stopped and an immigration law established including quo-tas for different countries, and automatic citizenship for those

born in Germany. The lack of an immigration law in Germany does seem to boost the number of pseudorefugees who otherwise have no legitimate way into the

Most have taken basic jobs that Germans would not have filled

country. The current combina-tion of liberalism over entry but neglect over integration is certainly unsatisfactory, and makes the asylum seekers more of a burden than they

The Länder, including the new east German Länder, all have to take their fair share of asylum seekers and in 1989 paid out DM4bn to maintain them, the figure for 1991 may be as high as DM6bn. (Some have argued that east Germans tend to be more xenophobic, having lived for four decades in a closed society with very little contact with foreigners, and that the east should thus receive less than its fair share of asylum seekers. There is, probably, more xenophobia in east Germany but proportionately more homes have been

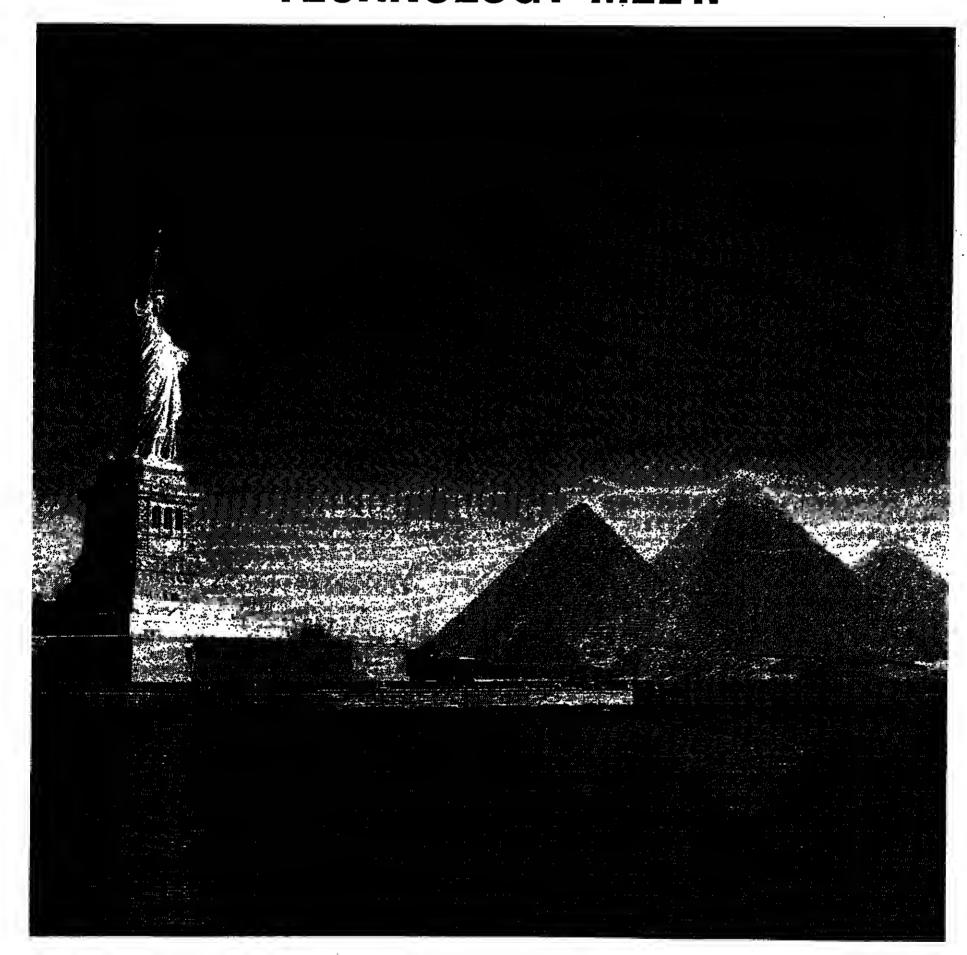
attacked in west Germany).

In July this year the employment ban for refugees whose cases are still being heard was lifted, at least where no German or EC citizen wants the man or EC citizen wants the job, which should make some of them less dependent. The 90,000 recognised refugees and the 500,000 unofficially recognised already had the right to work. But members of the latter group often remain in a twilight world, continuing to twingnt world, continuing to live for many years in temporary asylum seekers homes and not sending their children to school. The degree of imperation help they get is dependent on the varying regulations of the different variance. tions of the different Lander but has generally been as low as possible to dissuade people from coming in the first place. Integration support should probably be harmonised and taken over by central government Asylum seekers may be a net economic burden but immigration in general has certainly not been.

Mr Hans Peter Klos of the IN institute estimates that nearly half of the 1.5m new lobs created in west Germany in the last two years have been filled by Uher- and Aussiedler They have mainly taken heat jobs that west Germans would not have filled and that they themselves are often over qual-ified for. Thereby they have helped raise the overall level of onomic activity.

Foreigners in general are also a net economic benefit partly because their average age is lower than the indigenous population. But whatever the benefits of a relativity open door policy the German public and politicians, seemed

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draw up a list



vice provision by private (or at least non-central government)

Bot that has not prevented a steady rise in contributions -for both employers and employees - to the health, pension and unemployment insurance funds. How to control inexorably rising costs, especially in health provision, has been the central theme of the past few years and will continue to be so for the foreseeable future.

A more current concern is holes in the system, the care of the elderly and disabled. And overshadowing thet is the chalenge of integrating 16m east Germans into the system.

Contributions to the three main funds are, for the vast majority of Germans, deducted

Integrating 16m easterners overshadows the need for more elderly care

directly from their monthly pay. In 1950, bealth, pension and unemployment insurance together claimed 17 per cent of pay; in 1991, it averages 36.75 per cent with employees and employers paying half each (roughly 18 per cent each). Health insurance claims 12.2 per cent, unemployment 6.8, (recently raised from 4.3 to

17.7 per cent (reduced from 16.7 to compensate for the increase in unemployment insurance). Reformers have, since the mid-1970s, had two main wor-ries about these rising contributions. First, employers complain that they bave helped to

to over 80 per cent of wage

help pay for east German

nnemployment) and pension

GERMANY'S health and social fewer contributors will have to maintain ao increasingly security system is one of the most generous and expensive in the world. Like much else in the country it does not slot neatly into the public/private or state/market categories: large parts of the system combine state regulation with ser-

costly system at the beginning of the next century, especially in health and pensions. At the end of the 1980s the centre-right coalition in Bonn produced reform plans for the financing of pensions and health care. The pension reform, although relatively mainly because the govern-ment sought, and got, the co-operation of the opposition Social Democrats in making the system - run by about 20 quasi-independent funds -

rather less generous.

The automatic link between pensions and rising pay levels had already been cut in 1978. But from the beginning of next year pension levels will be calculated on net pay rather than gross pay. Even more contro-versial, the pensionable age for men and women is being grad-

ually raised. Currently women can retire at 60 on a full pension and men at 63. By the year 2000 both sexes will have to go on working to the age of 65 or face benefit reductions. In international comparison pensions will remain high.

The average monthly pension for a man who has worked 45 years is currently DM1700 per month, which is sometimes topped up by company funds. In principle, the 20 main pen-sion funds and the 1,153 health insurance funds are self-financing and independent of the state. The unemployment insurance fund, run by the Federal Labour Office, is not,

writes its large deficit. Currently a fully insured unemployed worker gets 68 per unemployed worker gets 68 per cent of his or her previous wage for one year if married, 63 per cent if unmarried. After one year the respective figures fall to 58 and 52 per cent, where they stay indefinitely. An unemployed person will also usually have his or her accommodation paid for as accommodation paid for as well as health and pension con-tributions covered.

yield meagre results costs which is making Germany unattractive as a business base. Second, the growing proportion of old people in the total population means that

removing from insurance cover

various minor items which

people would in future have to

pay for themselves, such as taxis to hospital and some

drugs, by creating incentives for doctors to behave more eco-

nomically; and by making the

hospitals, run usually by local authorities or churches, more

In other words he intended

to inject some discipline into

the system which the frag-mented health funds were inca-

pable of doing on their own.

Three years after the reform

was introduced it is clear that

there has been no structural

change and this year contribu-

tions will have to rise again to cover a possible deficit of

For two years the funds did

achieve surpluses of DM10hn and DM6bn (partly because of

sharply rising incomes) and

reduced the average contribu-

tion from over 13 per cent to 12.2 per cent. "The Blum

reforms did hold down costs

for two or three years but did

not break the npward treod," admits one senior official in

About half of the target

DM14bn in cuts were reached. DM3bn was saved by cutting

the insurance funds contribu-

tion to crowns and false teeth

from 75 per cent to 60 per cent.

Welfare costs are spiralling, writes David Goodhart

Three years of discipline

A non-contributory means-tested safety net, Sozialhilfe, paid out mainly by local authorities, provides a top-up for people, especially those with large families, who fall below a certain level of income. It is health that has been the main battleground of reform in recent years and so far the reformers have lost against the vested interests who make a good living from the system as it is.

Germany currently spends about DM239hn on health every year, which is 10 per cent of GNP, up from 7.9 per

People have to pay more for glasses, dentures, drugs and **Black Forest 'cures'**

cent in 1970. Stripping out the costs to employers of paying six weeks full wages when peo-ple are sick, and other indirect costs, the figure is more like DM150bn, of which about one third goes on running hospitals, one fifth on non-hospital medical care and one-seventh

on drugs.

Mr Norbert Blüm, the labour minister, responsible for the 1988 health reform, aimed to cut spending by about DM14bn. Half of the savings were to go to holding down, even cutting, contributions and the other half was to go on providing services which had hitherto not been covered by the health funds, such as care of the

make them free again. The only drugs which remain above the payment line are those with large foreign sales, especially to the National Health Service.

However this rather succe ful technique has been applied to only about one-third of all drug types and has not been extended. Other fields where people now have to pay more out of their own pocket include: death money, taxis and ambulances, glasses, hear-ing aids and "cures" such as the system which allows peo-ple to go and unwind for four they are suffering stress.
But hospitals have not been

made more accountable for the money they spend, only one has been black-listed by the insurance funds, and doctors have learnt how to get round the new regulations on behalf of their patients. The health insurance funds, proce to short-termism, are merely relieved to be holding the line on contributions for a few years, and Chancellor Helmut Kohl has shown be has no stomach for another fight by taking responsibility for health care away from Mr Blüm's

labour ministry.

This year health spending is expected to rise by 9 per cent while health insurance income will rise by only 5 per cent. Rising contributions are inevitable again, and the failure of the health reform to create sufficient savings to pay for a comprehensive system of care for the elderly and disabled may also mean a brand new level of contribution. There is cross-party consensus that some sort of compulsory insurance contribution is needed to pay for a fairer and more rational system bot there is no con-

sensus on how it should work. Hitherto people needing care have either been parked in hospitals (filling 100,000 beds according to some estimates) covered by a health insurance



East Berlin dole queue: added burdens for western taxpayers

system which is meant only for treatment; or relatives have looked after them or supported them in private nursing homes, or they are in local anthority homes. The local authorities reckon they pay about DM9hn a year in Sozialhilfe for old people in homes,

but there is a chronic shortage of staff because pay is so low. With smaller, more mobile, families and an ageing popula-tion the care problem is bound to get worse. Mr Blüm wants to introduce a fourth tier of "care insurance" contribution of 1.5 per cent of income, split, like the other three, hetween employer and employee. The contributions would then be paid out to three categories of

care-patient (determined hy doctors): people who can remain at home who would get DM750 a month for ambulatory care; a middle gronp who would need to spend a lot of time in care who get DM1500 and a third group who get

An average pension of DM1500 plus the care insurance of DM1500 would cover the average monthly cost of a place in a home of DM3000. German industry does not like this idea. It fears that like the other compulsory contributions the care insurance will creep up from 1.5 per cent, as indeed it has in Holland where

The BDA, the employers

body, has proposed instead that amployees pay a fixed sum monthly – from DM22 for a 25 year old to DM88 for the ovar 60's. The employers, meanwhile, would offer a single payment of DM55bn for the first 10 years of the system.

The Free Democrats (FDP), the junior partners in the rul-ing coalition, prefer a third model which would include an element of compulsory insur-ance but in a system organised by private sector insurance companies. The FDP seem determined to block Mr Blüm so there is currently a political impasse. But one thing is certain, the "social" in the social market economy will go on get-

West picks up a DM50bn bill for the first year of union

A further DM700m was saved from the drug companies by ruling that for drugs over a certain price people would have to pay a share themselves. The effect was to reduce the wind of the certain price people would have to pay a share themselves. The effect was to reduce the wind of electrical between the control of the price of the An expensive safety net to the price of almost all the targetted drugs far enough to ease painful side effects

GERMANY stitutionally, to raising living standards in east Germany to the west German level as swiftly as possible, writes David Goodhart.

Not all the economic changes following reunification have been positive ones for east Germans - prices have riseo, rents have oearly trebled, many have become unemployed for the first time but they are at least now supported by west Germany's welfare system.

Pensions and unemployment benefit are not as generous in east Germany because cootri-butions and beoefits are income dependent and incomes are still about 60 per cent of the west German level. However, even the lower levels of benefit cannot be covered by east German contributions so there has had to be a large one-off transfer from west to east to kick start the system in

the east.

Bonn has probably paid to the east more than DM50bn in the past year oo pensions and unemployment benefit (plns training and short-time working subsidies). The average pension in east Germany is now about DM900 a mooth, and most pensioners enjoy a considerably higher standard of living than before unification even if their rents have been trebled.

The newly established east

German pension funds were topped up last year by more than DM5bn from Bonn, and this year will receive a further DM9bn. Bonn will pay much more for east Germany's (aver-aged for the year) 14m unem-ployed and 1.7m short-time workers and for the expensive job creation and training subsi-dies. This will be partly cov-ered by the April increase in unemployment insurance, throughout Germany, from 4.3 to 6.8 per cent (split between employers and employees) which will raise about DM23bn over the year and could be extended. To make that increase more palatable the pension insurance bas been reduced from 18.7 to 17.7 per

Topping-np is rather more difficult in health provision and east Germans will bave to put up with a second class service for many years to come Health insurance funds have been established along west German lines but they do not bave the DM35bn that is required to equip east German hospitals and doctors to west German standards.

The east German Lander, who are now responsible for

most hospitals, do not have the money either. Health Ministry officials say that central gov-ernment will pay out about DM15bn to the east German dards and could even compete health system over the next six or seven years. The health insurance funds will also, pre-

sumably, run-up large deficits during the re-equipping period. The drug companies have already been forced to make their contribution by govern-ment enforcement of a lower

price for some drugs in east Germany. The old health system there was good by Soviet bloc stan-

with the west in one or two specialist fields. specianst heins.

It had a far lower proportion of doctors per-head than west Germany but a far higher proportion of nurses per head (partly because of the lower level of mechanisation). Many of those nurses have been mov-

ing west over the past year, lured by much better pay to plug the gaps in the west German nursing service.

Given the theoretical surplus of nurses in east Germany iffat

should not matter too, much. However the surplus assumes, unrealistically, that east German nurses have similar inductivity to west German ones. Some east German hospitals now have a serious shortage of

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From euphoria to envy

EAST GERMAN motorists used to drive much the same way as they conducted their

The collapse of Communist rula, however, led to near chaos on the roads of east Germany, accurately reflecting the upheaval in east German soci-

Forgotten are the years when millions of Trabants and Wartburgs puttered up and down the pot-holed Autobahn closely monitored hy an army of policemen in and ont of uniform. Few dared drive faster than the prescribed limit of 100

The ultimate in daring was to display a car sticker from the West proclaiming that one had a *Herz für Kinder* (a heart for children). Communist party members even took their children to task for waving to the occupants of passing Western

Today, the law of the jungle rules the roads of east Germany. East German owners of new Mercedes, BMW and Audi Autobahns at 160 km an hour. lights flashing at every slowermoving car which dares to remain in the passing lane.

Even Trabants and Wart-burgs manage speeds hitherto thought unattainable for them. Nowhere is a traffic policeman in sight. With rules and regulations in a state of susper east Germany's road fatality rate has soared to among the highest in Europe, The car-casses of abandoned, hurned-

side.
The breakdown of former constraints runs like a thread through post-Communist east German society. In Leipzig, Dresden and Halle, what were among the safest streets in the world at night are now ruled by gangs of criminals and

Public order and obedience, previously enforced by a finelyspun web of officials and Stasi informers, has disintegrated

Ordinary east Germans feel preyed upon by unscrupulous Westerners and threatened by lawlessness. Envy, fed by wid-ening differences in income, is widespread.

The recent violent attacks on foreign workers and asylum their ire, though, on their for-



All change: east Berlin children get their first western books

seekers in Hoysrswerda and as no surprise to Dr Hans-Joachim Maaz, head of the Psyroped parties), these willing converts to capitalism are feared as they frequently are the first to advocate massive chotherspentic Clinic of the Protestant Church in Halle. While treating patients over the years he was struck by the "fascist potential" which lurked just helow the surface of their socialist education. Suppressed aggressiveness.

submissiveness and total reli-ance on authority were elements which had poisoned relations among east Germans. While being forced to listen to abstract lectures ahont "international solidarity," they deeply resented the Poles who swarmed across the border in the 1970s to bny up goods in East Germany. Economically, east Germans for the first time in their lives must cope with

At the same time, however, they are able to afford only a small portion of them. While Westerners are accustomed to this dilemma east Germans are

Thay grumbla about their predicament and in doing so annoy west Germans wbo accuse them of acting lika spoiled children. East Germans vent most of

mer Communist bosses who often continue to manage the companies. Referred to collec-tively as Seilschaften (literally:

Many east Germans had illnsions of setting up their own business after the Wall fell. Kleinmachnow, the east Ger-man suburb adjacent to where I live in west Berlin, early last year hlossomed with freshly-lettered signs put up by resi-dents outsida their homes. They offered their services in everything from upholstering

to toy repairs. Most of the signs have since vanished. Similarly, in the autumn of 1989, the more than 100,000 private tradesmen and retailers in the old East Ger-many had visions of a golden era which failed to dawn, Many small grocers and other retail shops were forced out of business by the arrival of large west German chains.

Mr Arno Bernott, a cabinetmaker in Rostock whose shop was established by his father in 1948, early last year took in a west German partner, Mr Lndger Krebber, in order to survive in the barsh new world of competition. Mr Krehber

explained thet while east and west Germans spoke the same language they were "world's apart".

Mr Bernott remarked that

Germans had worked to which Mr Krebber added "but ineffectively". East Germans were rarely deeply involved in their work, an important reason why small businesses there often failed,

The Mittelstand (small and medium-size producers), which was supposed to play a key role in the transformation of role in the transformation of the economy, has also had a hard time getting established despite pledges of support by state and federal government. Typical of the experiences of potential small-scale producers was that of Mr Ingo Beyer. Mr Beyer and several other east German tradesmen signed

a preliminary contract with the Treuhand privatisation agency allotting them work-shops in the GRW electronics company in Teltow, a suburb of Berlin. Mr Beyer agreed to employ 13 workers and four apprentices and to pay DM125 per square meter of property. But the Treuhand decided otherwise and sold the entire com-pany to a group of west German property speculators for DM1.

Politically, east Germany lost the chance of a genuine transformation from within when the tiny dissident move-ment which helped topple the Communist regime was swept aside by the established west German parties. Long accus-tomed to obeying their Com-munist leaders – although grumbling while doing so – east Germans quickly trans-ferred this obedience to their new democratically-elected

leaders.
"Write that we support Chancellor Kohl" I was frequently urged by east Germans anxious to prove their loyalty to the new order. The subsequent disappointment with Mr Kohl among many east Ger-mans failed to politicise the population but instead led to even deeper resignation. East Germans retreated into an apolitical shell remarkably like rounded themselves for more than 40 years of dictatorship.

Leslie Colitt on a town that likes the roar of aircraft

MiG airbase seeks a new role

FOR nearly 40 years, Soviet airforce fighters flew ear-shattering training flights directly over Jüterbog, leaving this medieval town with soms of the most noise-plagued residents in east Germany.

The infernal racket day and which the law of the control of the

The infernal racket day and night, all week long, abruptly abated earlier this year when the Soviets agreed to restrict practice flights to two days weekly until they pull out in 1994. Ironically, Jüterbog is now vying to attract Berlin's planned new international sirplanued new international sirort to a sprawling former Soviet Army training area south of the town.

Most of its 37,000 inhabit-ants support the bid as they see no other alternative to creating jobs. "It is our only chance" Mayor Bernd Rüdiger

"The airport would mean negligible noise pollution for the population," Mr Manfred Dietz, head of the Department of Environment and Agriculture, argued.
Jüterbog, which is 80 kilometres south of Berlin, is com-peting with three other com-munities for Berlin Interna-tional Airport which is to be completed by the end of the decade. The area that gets the airport will prosper, with service industrias sprouting within a radius of 20kms or more.

the race for the airport. The training site was so churned up and polluted by tanks – first Wehrmacht, then Soviet that Mayor Rüdiger said it resembled the Sahara. Even the annual rainfall was well below that of the surround-

ings.
Jüterbog will have plenty of commercial sites to offer when the Soviets depart along with some of the older housing they occupied. The new buildings were in terrible shape, Mr Rūdiger said, and could only a husload of ethnic Germans from the Soviet Union who were to be housed there until they could be permanently

relocated. But on seeing the Red Stars on the nearby Soviet Army gates they panicked and demanded to be taken away. Relaxed and wearing u flow-ered sport shirt, the young mayor displayed a self-assur-ance which is still rare in east

ance which is still rare in east Germany. A civil engineer without previous party affilia-tions he was elected on the liberal Free Democratic (FDP) ticket. Mr Dietz, a member of the Christian Democratis (CDU), served as a local offi-cial under the old Peasant's Description of the control Party which was absorbed into the CDU after the collapse of the Communist regime.

All parties in Jüterbog gov-ern in a coalition which is typ-

ical of consensus politics in east Germany. use Germany.

Unemployment is a relatively low 11 per cent as Jiterbog has no factories. But it serves as a rail junction so

that the largest employer is the Reichsbahn (east German railway), providing relatively secure jobs for more than 700 people.

Jüterbog District, lying in the middle of endless grain-fields, lives from agriculture. State subsidies for modernisation are still flowing into the 20 large agricultural cooperatives, formerly known as collective farms, which still work nearly all of the land. But farming is expected to fail on hard times when subsidies from Bonn run out in 1992. Mayor Rüdiger said he had no complaints about the financial sid Jüterbog was getting, citing the DM 1.8m this year from the German Government's Aufschwung Ost (Recov-

ent's Aufschwung Ost (Recovery East) programme.

The town is also getting DM8m up to 1994 in construc-tion funds and nearly DM1m to rescue its crumbling medieval centre. The Town Council, anxious to preserve this archi-tectural heritage, has refused to allow more than two small supermarkets to move in. The aim is to prevent properly speculation and the resulting depopulation of town centres so widespread in the West.

Public sector employees may lose their privileged status

Warning signals on the railways

CAPITALISM may be about to disturb some of Germany's sevis best translated as public servant but signifies a whole way of life; the Beamte are privi-leged (job for life and special pension benefits) and conservative (no right to strike) and embody the virtues of duty and thoroughness with the vices of pedantry and inflexibility.

The new wave of interest in shaking np Germany's glant public corporations, in particu-lar the Bundesbahn, the federal railways, and the Bundes post, (already subdivided into Post, Postbank and Telekom in

its 1989 reform), is aimed at the cosy world of the Beamte.

The problem is that both the the Bundesbahn and the corporations facing growing competition, at least at the fringes of their husinesses, but the strait-jacket of centrallyagreed Beamte pay and condi-tions makes it difficult for Leslie Colitt | them to attract the right peo-

ple and to instill private sector attitudes.

Both Mr Christian SchwarzBoth Mr Christian Schwarz-Schilling, the Post Minister, and Mr Heinz Dürr, head of the

radaral Railways, have recently called for the privati-sation of their organisations or at least parts of them. That does not mean they are in favour of British Telecom-style sell-offs, although a partial flo-tation of Telekom might even-tually be possible; rather they want to become private wholly owned by tha state. Mr Dürr is under special

pressure because he must soon integrate the east German Reichsbahn and cannot deny their workers Beamte status if the Bundeshahn employees still enjoy it. He says that if the Bundesbahn was an AG it would be able to react much faster and more effectively claw back traffic from the overfilled roads. He cites the case of Kombiwaggon GmbH, a private company in which the

increased supply and forced down prices.

but Mr Björn Enghölm, the new Social Democrat leader, recently speculated about end-ing Beamte status in parts of the public service and Mr Arne Börnsen, the Social Democrat spokesman on Post matters, is For the Bundespost the main competition area is Telekom which is now having to compete with the private sector in all "value-added" services and even in certain parts of the telephone service, most nota-bly mobile phones. Telekom's top managers complain that it is increasingly difficult to get the right technicians and managers in these areas because there is no way round the

Beamte rules on pay.

To make the change from a corporation to an AG (like the British plc) requires, however, a change to the constitution which states that rail and post be directly administered by the state. That requires a twothirds majority in the Bundes-tag and thus the support of the opposition Social Democrats, Until recently such support would have been most unlikely

David Goodhart

result of pressure from the EC, another good argument, in his view, to prepare Telekom as quickly as possible for the pri-

a supporter of change.
If Telekom was allowed to become an AG it might be the

first step towards full privati-

sation as was the case with British Telecom. However Mr

Schwarz-Schilling continues to

argue against any further ero-sion of Telekom's telephone

monopoly on the grounds that

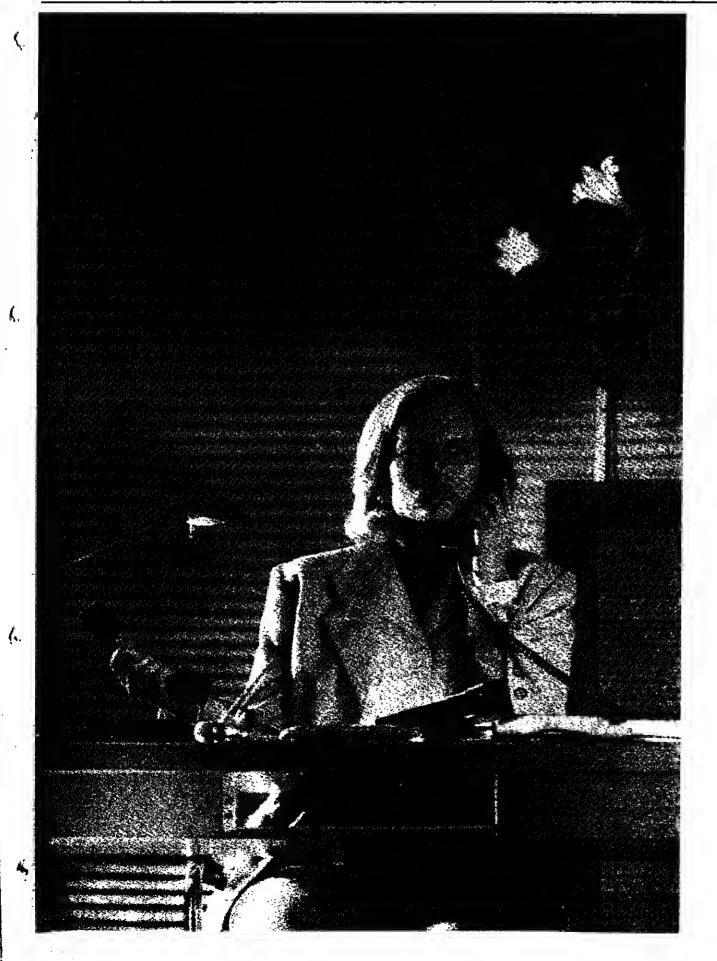
monopoly profits are needed to pay for the modernisation of the east German network.

But senior Telekom board members such as Mr Gerd Ten-zer accept that the monopoly

will go in the near future as a

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MR THEO WAIGEL, the made an interesting choice of words when he painted his broad-hrush picture of German economic prospects at the international Monetary Fund annual meeting in Bangkok

this month. The present, "somewhat more gentle pace" of growth, he declared, was not a change in underlying treods, merely a signal of a return to normality. The implication was that the worst of the opheaval following the political, monetary and economic unification of Germany was past and the "husiness as usual" sign was being dusted off.

However, violent aftershocks are still rippling through the economy, unsettling politi-ciane, forecasters, and the

Growth in the west has faltered, slowing to around 3 per cent in the second half, while the headlong plunge in the east has slowed. The downward line on the chart is flattening out. and a modest upturn is promised, and expected to continue

Best - and highly qualified estimates suggest that western growth in 1992 will range between 1.6 per cent and 2 per cent, all below the 2.2 per cent predicted in an apprehensive OECD report in July.

Government, employers and central bank officials could not

A gentler pace after the great upheaval

Dust settles but shocks continue

have been more forceful in their ritual speeches in the run-up to the 1992 pay round on the danger of a pay and prices spiral.

Inflation, after hitting a nine-year high in July at 4.4 per cent, eased to 3.9 per cent in September. But there are ample signs that the situation may deteriorate. Rewe, one of country's largest retail chains, recently said the shop-ping hoom was over and that future sales would ha depressed by large prica increases working their way through the distribution chain. Tohacco taxes go up next March, TV heence fees are to be increased on January 1, and there is concern that a planned 1 per cent increase in value added tax from January 1993

pensatory pay demands. Rents in western cities are rising hy 20 per cent and more, and a four-fold increase was imposed last month in the east. According to Deutsche Bank tax and pay increases will push inflation close to 5 per cent hy next spring. Other forecasts suggest that if 1992 pay rates increase hy a further 7 per cent, 5 per cent inflation "will become the norm".

Unemployment in the west is forecast to average 1.85m after 1.7m this year because continuing migration from eastern Europe and east Germany will cause labour supply to increase more quickly than demand. By contrast, there is a meawill be helped along the road

to Mr Waigel's vision of nor-mality hy marked swings in international trade as trading partners recover from recession. West German exports, after declining by 1 or 2 per cent this year, are expected to show a real increase of 4 per cent in 1992. Sales to EC countries, should go up hy ahout 7

per cent. Imports, already slackening as east German consumers' imme-diate demands are filled and spending power is reduced, will probably increase hy a real 3.5 per cent, compared with 11 per cent this year. Not result, according to Deutsche Bank, should be a doubling of the aggregate trede surplus to DM25bn.

There is optimism, too,

about prospects in the east, hut there are also many variable and unquantifiable factors still to come into play. There is general agreement on two points: that the economic hrushfire which swept the former DDR is virtually hurned out, and that there are stirrings of growth. The question of when that growth will become self-sustaining is little discussed.
Official unemployment fig-

with 5.4 per cent in the west, mask the reality. There are some 1.5m people described officially as working short-time, but many are effectively unemployed and waiting for the axe to fall. A further 450,000 easterners commute daily to jobs in the west, there ing courses, and more than

220,000 have taken early retire ment this year on part-pen-sions until they reach full retirement age.
Opportunities are rare, and

while the Treuhand privetisa-tion agency has successfully disposed of some 4,000 enter-prises, it still has a further 5,000 on its hands, and there are difficult days ahead for some, especially those in heav industrial sectors like the Bal tic shipyards and the steel industry which are ill-equipped to compete in tough world markets. Against this grim hack

ground, real economic growth in the east is likely to hover around 8 per cent in 1992, after a fall of more than 20 per cen this year. The driving force is construction, helped along by an emergent service sector. in their train there is a growing corps of mainly west Germ investors prepared to put up with endemic administrative incompetence and uncertainty over land and property oweer-ship and stake their claims. According to the Ifo institute in Munich they have already announced plans to increase investments in the east from DM24bn this year to DM35bn next. They have been encour aged hy government support for exports to traditional markets in the Soviet Union - and also by the longer-term pros-pect of being in the right place for expansion even further to the east when the time is ripe.

Christopher Parkes

THE TREUHANDANSTALT AT WORK

Pitfalls of a clearance sale

was winning unaccustomed praise for successfully selling former state companies, the east German privatisation

east German privatisation agency was rocked by a series of embarrassing disclosures.

The Treuhand was accused of virtually giving away alling industrial companies to investors who were less interested in production than in the valuable commercial property. Protests by Berlin officials and the public forced the agency to public forced the agency to cancel a controversial sale last summer of the Narva light hulb factory in east Berlin. The group of real estate investors who bought Narva showed no stood to profit enormously from the company'e prime

property.
In a similar vein, the GRW electronics company in Teltow, a Berlin suburb, was sold by the agency for a nominal DM1 to a west German investor. This was not unusual as the huyer had pledged to invest tens of millions of DM's and employ at least 1,500 workers. But following critical press reports of favouritism in the sale, a senior Treuhand official responsible for the deal was

The agency subsequently admitted it had grossly undervalued the property.
While the Treuhand insisted it was capable of investigating internal malpractices, it appeared that it was not subject to meaningful control. With e hndget of nearly DM38bn and 3,300 employees, the mammoth holding company is expected to sell 3,400 companies by the end of this year out of the 8,000 it inherited. Foreign investors bought 156 companies up to the end of last August, with France leading the pack with 46 compa-nies. Switzerland followed with 22 companies, the Netherlands Belgium 18, Sweden 17 and

Nearly 8,400 companies remain on the Treuhand dole, however, as many oversized companies were broken down into smaller units. While nearly two-thirds of the remaining companies are deemed capable of survival, the rest face closure. At the same time, the Treuhand faces renewed political pressures to save tens of thousands of jobs.

The agency's recent sales record is impressive measured against its performance last year when only 250 companies were privatised.
Founded in February 1990 hy the short-lived Communist Government of Mr Hans Mod-

row, the Treukand spent its first three months supervising the transformation of state enterprises into joint stock companies. The turning point for the agency came in August of last year when Mr Detlev Karsten Rohwedder, the former head of the Hoesch steel company, was appointed presi-

He carried out a sweeping reorganisation, setting up 15 regional Treuhand offices and hiring senior west German company executives to key posts in the agency. Inevitably, though, this led to conflicts of interest as the new Treuband officials had to select potential huyers from among hidders who included their former

After unification in October

1990, the Treuhand's new owner, the German finance ity of privetisation over

estructuring state companies. But hy last spring, Bonn had a change of heart. The realisa-tion struck home that closing down loss-making industrial companies, with the loss of thousands of jobs, placed a greater long-term hurden on state finances than restructur ing the companies with the help of state-backed loans. Privatisetion and restructuring were henceforth deemed to be of equal importance.

Bonn stepped in to save the industries of the important Halie-Leipzig area

The murder of Mr Rohwedder hy terrorists last April brought to the belm Mrs Birgit Breuel, his deputy and a former CDU Finance Minister in Lower Saxony.

Although her credentials

were those of a free marketeer, she has come to accept the social role of the agency which is the largest employer in east Germany.

Industrial companies, partic-ularly in the electronics, chemicals and shipbuilding sectors, present the most difficult economic and social problems for the Trenhand. The trade unions attacked it for bowing to pressure from west German shipbuilders who feared competition from east Germany. Robotron, the largest electronics company, is to he

loss of 9,000 qualified jobs.

Population Head of Str

Mearly DMIhn is being poured into the chemicals sector this year by the Treuhand to cover the losses of the four main prothe losses of the four main pro-ducers. Bonn decided to save the obsolescent companies hut

in a highly-reduced form with 30,000 employees.

Behind the rescue was the realisation that their collapse would have de-industrialised the important Halle-Leipzig region. Above all, Bonn feared

mass discontent among the

inhabitants.
The Treuhand did not need to do much selling in order to privatise the relatively few plums among the companies it holds. Western companies wasted no time in conducting waster no time stigations of companies, only consulting the Treuhand in the second stage of deliberations. But even with the more desirable companies, the successful hidders were those who agreed to make the

largest investments.
Price usually paid a negligihle role. The Treuhand
assumed 70 per cent of former company debts as well as lia-bilities arising from environmental damages. The motiva-tions for Western investors to buy east German companies were varied. They ranged from gaining access to public contracts to stifling potential Eastern competitors and preventing other Western companies from gaining a foothold. Management huy-outs, at

first neglected by the agency, are seen as an important means of privatisation. More than 500 companies, mainly small and medium-sized ones, have been sold through MBOs.

President Richard von Weizsäcker

Leslie Colitt

356,900 sq.km.

INGRID MATTHAUS-MAIER, the SPD's finance spokesperson, talks to Quentin Peel

Seasoned critic of numbers and politics

M R S 1 N G R 1 D MATTHAUS-MAIER, Germany's shadow finance miniscorner of her office overlooking the Rhine, on which she scribillustrate her thoughts. She is not an economist, an

accountant, or the follower of any other numerate profession. But she obviously enjoys num-ber-crunching. Before she came a politician she was a

She has also been deeply

involved in the politics of German economics throughout her political career, ever since she became, at the age of 34, chairman of the finance committee of the German Bundestag. back in 1979, and Mrs Matthaus-Maier was then a member of the Free Demo-

crats (FDP), junior member of the coalition government with the Social Democrats (SPD). And that was before the traumatic days in 1982 when the coalition collapsed, and Mr Helmnt Schmidt was over-

Mrs Matthäus-Maier resigned from her party in protest, convinced that they were the real culprits in the crisis. "I was there for the whole affair of dismantling subsidies on the FDP side," she says. "All the big cuts the SPD went along with. But the FDP wanted to get ont of the coalition because the social democrats were slipping lower and lower in the local elections."

Later that year, she crossed the floor and joined the SPD, and has never looked hack. finance, and deputy leader of

THE main highway from Straisund, on the Baltic coast.

to Berlin is almost exactly 200 kilometres long. Such a jour-

ney in west Germany might take a couple of hours. But on

from seaside to capital took

the SPD group in the Bundes-tag. But she refuses to be compartmentalised within the

"There isn't the drawer to put me in," she says disarmingly. "I'm on the left wing on issues like the environment and nuclear energy. On money I'm a right winger, on taxes and so on. I think that is no bad thing.

She is certainly a cogent and coherent critic of Mr Theo Waizel, the finance minister, and his attempts to prove first that unification was not costing the money it really was, and second to disguise the real size of the public spending deficit being run up to finance it. Yet ironically for e critic for the she tends to be just a tough as any right-winger in attacking his inability to con-

It is ironic too that it is the very issue on which the SPD-FDP alliance collapsed in 1982 the dismantling of stale subsidies - which is once more at the centre of the hudget agenda. For thanks to the massive spending demands in the

never looked back

former East Germany, the only way to control the deficit now is to find spending cuts in the west. And that is really just as tough for Mrs Matthaus-Maier and the SPD as it is for the

In 1982, she crossed the floor from the Free Democrats and has

the defence hadget, and the much greater savings that can and should be made now the Cold War is over. She has singled out the European Fighter Aircraft, known as the Jager in Germany, as enemy number one to be axed. And she has also attacked the coalition for choosing this time of budget stringency to introduce a whole raft of tax cuts for businesses, cutting its revenues by more than DM6bn. "The government says we

need the cuts for our companies to be competitive for the single (EC) market at the end of '92." she says.

"I don't think German enterprises are that uncompetitive. Look at Britain, where cuts in tax have no tiveness, they have just meant a drop in infrastructure spending, which has weakened the economy.

tax country. But nothing comes for nothing. I believe there are no grounds to introduce these new tax cuts for industry right now. It is antisocial She is also critical of Mr Jür-

"Of course we are not e low-

gen Möllemann, the economics minister, for his headlinesnatching tactics in campaigning for subsidy cuts.
"It is all hot air," she says.

"There is no question hut that we must save money in the old Bundesländer. But what Möllemann is doing is counter-productive. Take the coal indus-

"Everyone knows that the production must come down. But he makes such a song and dance about it, he pnts up everyone'e back. He conducts She has focused ahove all on



Mrs Matthäus-Maier: a great zest for dissecting Government statistics

negotiations in the wrong And then she accuses the coalition of trying to put all the subsidy cuts on industries like coal and shiphuilding -

protecting the conservative

German agriculture industry yet again - "their own cus-Thanks to the coalition's miscalculations of the cost of unification. Mrs Matthaus-

Maier has had something of a

field-day for the past year.

"Now people know that the government did not tell the truth," she says. "Huge illusions were created on hoth sides of Germany. They said it would all change

quickly in the east, and it would not cost anything in the

Average exchange rate 1989 \$1 = 1.8800 1990 \$1 = 1.6160 ECONOMY 1989 1990 Total GDP (\$bin). 1,181.3 1487.9 Real GDP growth (%)...... GDP per capits (\$)...... Components of GDP (%)... Private consumption..... 19,200 24,170 . 20.9 Gross tixed investment 18.7 Government cons -29.7 2.7 Consumer prices (% change)... Unit lab costs (% change pa)... ind, wage rates (% change pa). Ind, production (% change pa). Unemployment (% of lab force) 7.2 67.90 Reserves minus gold (\$bn)...... 60.71 Narrow money growth (% pa)... Discount rate (% pa,year end)... Govt bond yield (% pa,avg)..... FT-A index (% change)...... +34.1 -20.1 Budget deficit (\$m).. 3.990 341.3 269.5 Exports (\$bn). Imports (\$bn). 412.0 Trade (1990, % by value)_ Exports **Imports** 11.7 Source: IMF, Datastream, EIU, OECD.

KEY FACTS

west. They were wrong on both counts." Finding the policies to put it all right, of course, is much more difficult. The SPD would also have to throw a lot of money into the east. It pushed hard for the idea of job-

coalition has now grabbed its clothes. Forging a clearly dif-ferent identity is likely to prove a challenge. For the time being, however, Mrs Matthaus-Maier is ohvionsly enjoying her role in pulling Mr Waigel's

Half the roads of east Germany need replacing or overhauling, writes Christopher Parkes

Potholed country offers years of work

seven hours. For most of its length the road is almost exactly two carcially declared uninhabitshle widths across; part cohhles, part concrete, part asphalt and part dirt. It is heavily potholed and lined with large and threatening trees for most of its length.

The traffic is light and

mixed: hicycles, Red Army trucks, clapped-out Trahis, assorted livestock and farm tractors jostle in slow motion with new Audis and holidaying Swedish Volvos.

But the endless series of make-do-and-mend repairs, and meandering diversions make for painful - if picturesque -

progress.
There are about 50,000km of roads in eastern Germany, and, according to the authoritative Ifo research institute in Munich, half need extensive repair or replacement if they are to play a western-style role in the infrastructure. That the number of road deaths and injuries in the newly-motorised east has doubled since 1989 underlines the urgency of the task confronting the German construction industry.

collapsing sewers and water distribution systems, plus a shortage of 1m homes in the easy to understand why Mr Hermann Becker, president of the HDB huilding industry fed-eration, declared earlier this year: "We need to take a deep hreath."

Western taxpayers, mean-while, already hurdened with extra levies to subsidise Ger-man unification, are indeeding to Ifo, the cost of bringing the east's existing transport

Frequent meandering diversions make for painful, if picturesque, progress

infrastructure np to the level of that in the west – excluding extensions – is more than DM200hn. Add in water and drains, new roads to link the two halves of the country, environmental works, and the figure soars over DM500bn. in the private sector, according to another DM600hn is needed

Little wonder that building sector shares have been star performers this year, and that the eastern construction indus-try has been nominated as the locomotive to drag the eastern economy out of the black hole. Even customarily conservative government ministers declare government ministers declare thet growth in the sector next year could exceed 10 per cent, compared with the long-term average growth in the west of around 3 per cent annually. Executives at Bilfinger + Ber-ger, Germany's third higgest construction grown confidently. construction group, confidently predict 10 per cent and more annual growth for the foresee-ehle future. At the end of the

The prospects are stunning and daunting at the same time. Established huilders and suppliers are increasing capacity, rounding up capital, huying up smaller operators, and etrug-gling to establish crucial materials depots along the roads and railways they are there to rebuild. State governments and local authorities are desper-ately trying to sell off public housing to raise funds for the

first half of the current year it

DM6bn on its books.

had record orders totalling

work ahead. But even at 15,000 for a reasonable dwelling, the rehuild the east's honsing Leipzig honsing authority is finding few buyers to support e plan to modernise 50 per of its housing stock with earnings from the sale of the other half. Officials in Rostock report similar reinctance among tenants who say the authorities must modernise their homes before they will contemplate huying.
High interest rates (mortgage rates have risen about three percentage points in the past three years), rising land costs, confusion over property ownership in the east, and inflation-plus wage demands from the construction workforce add to the complications, IG Bau, the main union, recently reinforced with 325,000 new east German members, is demanding pay parity with tha engineering unions, and other privileges such as a 35-hour week and guaranteed winter

> But progress is evident everywhere. In the field of corporate restructuring, for exam-ple, Walter-Bau, a private company which has taken over a 2,000-worker company in Dresden, and saw profits increase

weather pay for when work

German construction industry orders Index July 1990=100 200 TOTAL 300 200 100--200 Industrial 100-4 400° 200 July 1990 Source: Industry sources 1991 Jun floated on the stock market

shortly.

Dywidag, a quoted huilder, earlier this year hought the 8,000-worker Union-Ban in Saxony, east Germany's higgast construction company. Braas of Frankfurt, Germany's leading roofing materials company, which is controlled by Redland Tiles, this month scooped up hrickworks at Narsdorf and Lübschütz near Leipzig, to add to its recent collection of four eastern tile factories. RMC, another British entrant, is present all over the east and is established as e leading sup-plier of aerated concrete prod-On the ground in the east, every road and rail track is lined with newly erected sand

and aggregate dumps, cement stores and concrete plants. Even the smallast villages boast do-it-yourself superstores crammed daily with home-owners and small builders cart-ing away bathtubs, sanitaryware and trailer-loads of bre hlocks. A pontoon roadway linking the Baltic holiday island of Zingst with the town island of Zingat with the town of Barth runs alongside a life-threatening steel bridge await-ing replacement. A 40km diver-sion around Oranienburg, just north of Berlin, steers traffic away from the reconstruction upheaval which has brought the town to a standstill.

That rusty relic of the command economy's neglect is just one of the 1,300 eastern bridges which need, according to Ifo, to he completely rebuilt. Many of the other 6,400 need extensive repair, as does more than half of the 48,000km road network,

36,000km maze of drains. reportedly shiver in their-shoddy, underheated homes. More than 40 per cent of the east German housing stock predates the first world war, compared with 19 per cent in the west. More than a quarter of homes have no bath, 32 per cent have no inside lavatory and only 40 per cent have cen-tral heating, and yet the ten-ants living in these antiquated

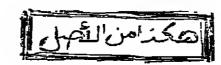
and a similar proportion of the

circumstances are rapidly having to come to terms with pay-ing modern-day rents. A four-The west's housing boom has slackened under pressure of interest rates

fold average increase imposed at the beginning of October-roused a fresh chorus of com-plaints that the Ossis were being squeezed too hard. Even so, exchequers in the five new eastern members of the Federal Republic are still paying out DMibn a month to keep public honsing authorities. affoat, and in Berlin, even before the October increase, 400,000 people were drawing social security payments to help them keep up with their The housing boom in the west, which took off in 1988

with a 14 per cent increase in building permits, and continued over the next two years with rises of over 20 per cent, has elackened lately under pressure from interest rates and a 7 per cent rise in buildand a 7 per cent rise in building costs this year. In the first quarter of 1991, the construction industry completed some 25,600 new homes in the west, 8 25,600 new homes in the west, 8 per cent more than in the comparable part of last year, but Bonn's target of 340,000 new homes a year (plus 100,000 in the east) will not be reached at that rate. The government has responded quickly with new proposals to keep construction going.
This month, for example, Ms

Irmgard Adam-Schwaetzer, the housing minister, proposed a generous range of fresh tax generous range of fresh tax incentives for people buying or building homes, plus a 25 per cent increase in the central funds available for public housing. How far the plans get depends almost entirely on the attitude of Mr Theo Waigel, the srim finance minister with a grim finance minister with e bndget to control and tha Bundeshank barking at his heels. And what effect they have, should they be approved, denerals on the Comproved. depends on the German con-struction industry's ability to cope with the monumental demand piling up on its door-



After 1990's bumper pay rise, wages this year will help to underwrite German unity, says David Goodhart

Trade unions accused of lacking restraint



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THE German trade unions are in the dog-house. They stand accused of leading a wage-price spiral in west Germany and contributing to mass unemployment in aast Germany through insisting on premature wages equalisation with

Both accusations should be viewed with some scepticism. in 1990 west German real net wages per worker rose by 4.8 per cent which, thanks in part to tax cuts, was the biggest annual increase since 1970. This year, thanks in part to the tax rise to pay for German unity, real net wages will probably fall slightly, the seventh year of negative real pay since 1981. Between 1980 and 1990 workers' purchasing power increased by only 7 per cent while working time fell by 5.6

per cent.
That is hardly evidence of irresponsible trade unions. It is, however, true that produc-tivity this year is expected to rise by only 1.5 per cent (down from 3.5 last year) and that, therefore, unit labour costs could rise by over 4 per cent, compared with 2.7 in 1990 and 1.2 in 1989, which is the cause of some worry at the Bundes-

It is also true that gross nominal wage rises reached a cyclical high in 1990 and 1991 and, judging by some of the claims now going in for 1992, will probably drop only slightly next year. In 1991, the two most important bargaining groups, in the public services and engineering industry, both won nominal rises of 7 per

But the recent rises have not kept pace with the sbarp increase in corporate profits and are in any case a temporary phenomenon, the result of a catch-up after the relatively unfavourable deals of the late 1980s in which pay was sacrificed for reduced working time. Now that the trend-setting union IG Metall has achieved the 35 hour week, albeit phased

The union is turning to matters such as harmonised conditions for blue and whitecollar workers

in by the end of 1995, it is turning its attention in "Tarifreform 2000" to matters such as fully harmonised conditions for blue and white collar workers, qualification-based pay and grading, and extending co-de-

termination at the work-place. It is clearly not going to ignore wages but the wages push of the last couple of years will

probably relent Partly as a result of that push the share of wages in

national income is expected to

More than 3m people, out of a shrunken workforce of about 7m, will remain

unemployed

rise slightly this year for the first time since 1970. More important than unions in reasing the share of wages has been the continuing ability of the unification-assisted west German ecnnomy to create jobs (1.5m since January 1989) and thus push unemployment down to 5 per cent.

But are the unions responsible for the corresponding job destruction on the other side of the old inner-German border? More than 3m people, out of a shrunken workforce of about 7m, will remain without full-time work in east Germany next year, although only about 1.6m will be categorised as unemployed.

ing wages much faster than productivity has created higher in the transitional period and

sector, still something of a

niche player among other

re-enter the international capi-

Changes in the German mar-

the bond and particularly the

equity market as well as in mergers and acquisitions work. While financial market liber-

alisations play a part in such decisions, it is the additional

economic significance of Ger-

many since reunification that

is the decisive factor and

which in time should also widen the domestic capital

many economic problems, east

German honseholds also

the bank of DM115bn, further

Just as tricky as liberalising

market practices will be the increasingly pressing task of re-regulation - the need for which has been apparent in the

surprising gaps in Germany's

Just as tricky as liberalising market

practices will be the

increasingly pressing

task of re-regulation

snpervisory capacities. The undertaking has been made the more urgent hy revelations over the summer of irregulari-

ties in the domestic securities

operations, inter alia at Deut-

sche and Dresdner Bank, the

country's first two financial

Bank resigned, and Deutsche

Bank dismissed its chief equity options dealer, but otherwise

little else was actually made public - with the scandal

somewhat diverted by investi-

gations into apparently wide-

But the affair, prompted by

several anonymous letters

spread tax evasion.

Five officials connected with

securities.

tal markets via D-Marks.

that lower wages or subsidised wages would bave smoothed out that transition.

At the economic level that may be logical, although it is also argued that the main problem with east German products is not that they are too expensive but that they are the wrong products produced on the wrong machines for western markets.

If that is correct, then lower wages might actually binder the renewal process by making the wrong products artificially economic. It would be far better to subsidise new investment, which is what the government is doing.

But the main problem with the case for lower wages (although not necessarily sub-sidised wages) is that it ignores the politics of German unity. For good or ill the promise of German unification was that east Germans would swiftly enjoy west German standards of living.

West Germany was a relatively homogenous country with strong institutional, indeed constitutional, pressure for roughly equal living condi-tions throughout the land. That too was reflected in the terms of unification for the new united country. It was agreed that west German insti-tutions, not just political and Immediately he extended to

east Germany. Thus west Germany's industrial relations system with its extensive participation and veto rights for employees and its centralised bargaining has been extended to an economy which needed something much more differentisted. That, combined with the generous monetary conversion, has guaranteed unrealistic wages. The unions, of course, welcomed the extension of their own power to east Germany which they had feared might undermine west

Complaints began to be heard that the unions were responsible for

closures

was quite happy to play along with this. It positively wel-comed the first wave of 20 and 30 per cent pay rises in east Germany in 1990 and willingly extended its own system of national bargaining in the public services to east Germany. It seemed to accept that the often cited east Berlin dustman or bus driver doing exactly the same job as his West Berlin col-

same job as his west Berlin col-league could not go on getting one-third of his salary. But when at the beginning of this year first IG Metall and then OTV, the public service union, won phased equal-isa-tion of hourly wages, to take effect from 1994, the govern-ment and employers began, belatedly and unfairly to combelatedly and unfairly, to com-plain that the unions were responsible for the wave of closures that was just beginning. Similar deals have now been extended to most major bargaining groups.
There had, in reality, been

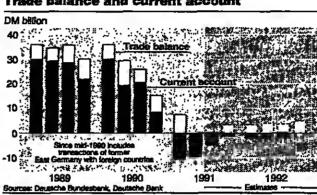
no real negotiations as the "employers" were mainly com-munist bosses who faced reelection from their employees and were not inclined to play the tough capitalist. The Treu-hand, the owner of the east German companies, took no role in the negotiations. West German employers had no interest in making east German employers more competitive, although Mr Werner Stumple, head of the west German engineering employers, has subsequently defended the deal on the grounds that it gives employers long-term clarity and prevents the emigra tion to west Germany of the best qualified workers.

The unions, who are fully aware of the wage-productivity

The two German economies Eastern Germany Index 1985=100 Industrial production Index 1985-100 Seasonally adjusted figures area character ² Not assumely adjusted figure German wage levels.

At first the Government too 40 Thousands 2000 2000 - Vacancies 1000 Short-time workers

> Sources: Deutsche Bundesbenk, Federal Economics Ministry and OECO Trade balance and current account



problem, have defended the deal on similar grounds but also emphasise that it is not as generous as it looks. The headline hourly wages figure which la now about 60 per cent of the west German level obscures the fact that working hours are longer, bolidays shorter, and most of the common west German fringe benefits non-exis-

OTV even provoked the wrath of its own members in the east when they discovered that as a trade off for the hourly wage equalisation the union had accepted that east German workers' previous service would not count for grading purposes.

The workers argued that this was not only a psychological

blow but disregarded the drop in real purchasing power thet some east German workers are now suffering as a result of buge increases in rents and

The average east German Is earning about 45 per cent of the west German level

Looking at total labour costs the average east German is earning about 45 per cent of the west German level, still more than the productivity dif-ference would allow but not so much more. According to an IG Metall comparison of the metal

industry in Saxony and Bavaria the Saxon wages are currently 39.9 per cent of the Bavarian level Even in 1994 the average difference between east and west Germany will be more than 20 per cent.

But should west German workers be holding back on their pay rises to release more cash for investment in the east? If such an effect could be guaranteed then they should. But the likely effect of wage restraint in the west would be higher investment there. Employers have no shortage of money - DM670bn according

As well as supporting new investment, the government might consider subsidising job creation

to the Bundesbank - only a shortage of profitable invest-ment prospects in the east. Sufficient capacity in the west, or problems with infrastructure and ownership regulations in the east, are usually cited as more important disincentives

than east German wages.
As well as subsidising new investment it might make sense for the government to subsidise the creation of new jobs. It is doing this, mainly in the public sector, through its ABM job-creation scheme which will cover 400,000 people by the end of the year. It is controversial with smaller private employers whn believe them, but it is probably a better use of the taxpayers money than the widely condemned payments for workers on shorttime who often just sit at home and do not get re-trained. What would be most benefi-

cial for the east German labour market would be a temporary plant-based bargaining system which could take account of the new plants being built by Volkswagen or Siemens, which will have the highest produc-tivity in Europe, and the old factories up the road which have sacked half their workers but have no money for new investment and still have onethird the productivity of their west German competitors.

The institutional terms of unification have made that an unlikely prospect. But it is happening on a small scale through the large number of smaller east German employers who are refusing to join the employers' organisations and thus do not have to pay the nationally agreed rates.

Katharine Campbell probes Frankfurt's ability to raise cash

Roles are reversed for city of bankers

IF THE volume of learned articles devoted to Frankfurt'a competitiveness as a financial centre were the only measure of its importance, it would perhaps be pre-eminent in in

Europe, if not the world. This is certainly not the case, but, partly because of all this attention, Frankfurt's international reputation bas been significantly enhanced in the last few years

It has been further strength-ened by German unification which has eroded the country's once weighty current account surplus and reversed its macroeconomic position. Germany had long been a laggard in the financial services game. But with the abrupt loss of its capital exporting status, it now needs to pay ever greater attention to ways of attracting foreign capital for its domestic

Indigenous institutions betray more than a shade of ambivalence towards greater openness

1

The task is not easy and the indigeoous institutions betray more than a shade of ambivalence towards greater open-

Until recently, financial services policy had been largely directed towards catching up at a sedate pace - with deregulatory trends already established in other centres. One of this year's landmarks has been the emergence of a rapidly growing D-Mark commercial paper (cp) market fostered by the abolition of securities turn-over tax at the beginning of 1991 which in turn coincided with the removal of cumbersome issuance approval proce-

The aggregate value of existing programmes issued by top estic corporates as well as by state-owned entities, most notably the Treuhandanstalt east German privatisation agency, had exceeded DM13bn by the end of September, according to Moody's, the US

rating agency.

The absence of a significant short-term money market had been a curiosity of the German now received a modest fillip by a combination of cp together with a flood of D-Mark floating rate notes (FRNs) issued by the east German Staatsbank in the process of its integration into the western system. But domestic banks, worried

about the possible erosion of their cheap deposit base as commercial paper makes their term deposit rates less attractive, privately admit they are keen to contain these developments. Moreover, the insistencs of some Bundesbank directors that minimum reserve requirements remain in place prevents the expansion into other instruments. such as bank certificates of deposit, which are an impor-

tant competitive funding instrument for foreign banks. Frequently criticised for their reluctance to embrace innovation. German banks have also been slowly catching on to futures and options products, as the DTB, the nearly two year old derivatives exchange, has established itself and broadened its range of tradeable instruments.

Some banks, however, see this as a mixed blessing; one Frankfurt private institution says that its equity commissions have halved since the advent of the DTB and as cli-



Euro-currencies, bas been boosted this year by the big four Japanese securities houses actively creating equity warrants for their domestic cliin London and New York.

The sector also continues to attract unusual borrowers -notably the Republic of South trading for their own account Africa, which recently chose to flicts of interest and tempta-

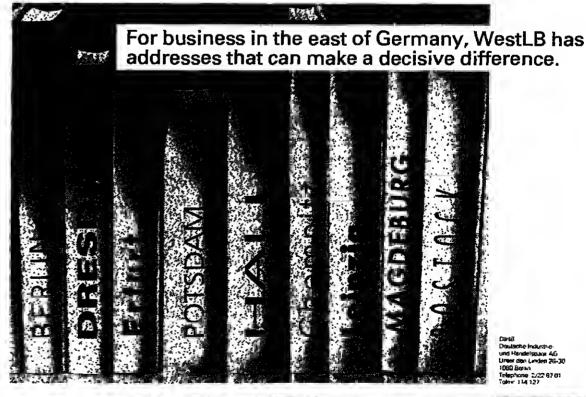
ket are also attested by the strategies of foreign banks and investment houses, catching up on or boosting a Frankfort Goldman Sachs, a notable doman Sachs, a notable absentee from the German financial capital, has now finally come in, and is expected to have a significant impact in

swelling the country's vast pool of savings resources which could be channelled into first instance to Bonn, which is currently drafting a new stock exchange law.

As well as replacing the cur-

rent voluntary and toothless insider code with a law interpreting EC guidelines, the gov-ernment will have to address the need for a central securities aupervisory authority.
This will be fought at every
turn by the Laender, which
appear not to understand the
need for legislation much wider than stock exchange

dals have placed Germany's banks in a poor light, a no less worrying trend is the apparent



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INFORMATION

Today, it is more vital than ever to have an insight into the German economy, already the powerhntuse of the EC and likely to achieve even greater strength in post 1992 Europe. Moreover, Germany's unique position as the gateway to Eastern Europe makes it an important springboard to oew and developing markets in the East. markets in the East.

CERMAN BRIEF, published monthly with weekly undares by Frankfurter Allgemeine Zeitung Informatioo Services, is essential reading for iovestors and exporters preparing to coter this lively market as well as for bankers, analysis and amone who is coosiderlog doing husicess

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pared with their counterparts

This is because it is assumed that they pad their wallets to a very considerable extent by leading to inevitable contions to take advantage of a client's or the bank's own trading position.

Even those banks minded to keep close tabs on their staff are hampered by powerful employee rights and German banking secrecy laws. While the Berlin banking

regulators get bad marks because of their inflexibility and remoteness from market practice, securities regulation is something of a black hole. Vast areas such as investment advice remain a free-for-all, and products such as commodities futures, that are not legally defined as banking instruments, also effectively escape any form of supervi-

The eight regional stock exchanges are regulated by the respective Laender, who are market. Together with their currently fighting to retain brought with them savings in their remit.

The job of rectifying this and many other areas falls in the

rules and regulations.
While this summer's scanconsolidation of power within corporate Germany.

While the rhetoric contained none of the anti-foreign overtones of the recent Krupp Hoesch merger discussions, the revelation in July that Allianz, Germany's biggest insurance company, had accumulated a new issue business at Dresdner 23 per cent stake in Dresdner Bank, has sparked renewed fears of so-called "Japanisierung" across industry and finance.

Given the narrowness of the German equity market in terms of listed stock, it is anyway estimated that Allianz's vast investment portfolio contains some 10 per cent of virtually all leading listed companaming prominent members of the securities industry, has

A breath of competition trained the spotlight on a sys-tem ripe for abuse. While rules resulting from market liberalis vary greatly between instituations would mean little if tions, traders at the big banks such consolidations continue.

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GERMANY 12

Unique and powerful stimulus - but not for all

A year of pain and joy

FOR MORE than a year, west German industry has been ben-efitting from the unique and powerful stimulus of reunifica-tion.

As demand has sagged in western markets like the US, the UK, and Scandinavia, east Germans have become consumtheir needs had been virtually ignored, they celebrated their new-found political and eco-nomic liberation by spending their new D-Marks on western goods which had barely been

available before.
For some west German com-panies, the surge of demand was almost too much to handle. Car producers, for example, have been hard pressed to turn out enough models to satisfy the desires of people for whom driving and travel became exciting new pastimes almost overnight. Thus importers have also seen sales rise, a trend visible in other consumer

The hig west German retail chains have been investing

heavily in the east, replacing the old colourless state stores with hright new premises. Makers of electronic, pharma-ceutical, cosmetics, and other consumer products have also met vigorons demand. For

years, the food and drink industry had to be content with growth rates of a mere 1 or 2 per cent; last year, it raised output by more than 12 per cent. Builders have been caught up in the activity too. caught up in the activity, too, as a start has been made ou the awesome task of rebuilding east Germany.

Some industries, though, have felt little benafit. The

mechanical engineering sector-has gone through an uncom-fortable patch as export mar-kets have declined. Not until the capital investment side of the east German economy really gets going will machin-ery companies feel the impe-tus, though some sectors such as makers of building and packaging equipment have seen their order books swell in the wake of unity.

But although the uniting of the two Germanys has brought joy and freedom, it has also led to pain and dismay. With the introduction of the strong D-Mark and the later collapse of Soviet business as Comecon dissolved, east Germany indus-try has been put on the rack.

Jobs have disappeared, produc-tion has slumped, and orders have dwindled. It is a process that is inevitable if east Germany is to be modernised and refurbished, but the economic, social, and psychological disruptions are immense

So is the cost to the German exchequer. The experience of higher taxes and rising prices has tempered the enthusiasm of some west Germans for unification, as the realisation has

Higher taxes and rising prices have tempered some enthusiasm for unification

dawned that an event of such magnitude has to be paid for. By the end of the century, east Germany will undoubtedly have one of the most modern infrastructures and some of the best industrial plants in the world. But though investments are flowing through and the signs point to an upturn in the flattened economy – though not in employment, which will remain excessive as past over-manning is unwound – the present state of industry in the five new states is dire.

"In many east German industrial firms, the situation

is still critical", comments the IFO economic research insti-tute in Munich. Companias which formerly specialised in selling to eastern Europe and the Soviet Union are winning hardly any husiness. Those which have heen privatised and modernised are starting to perk np, however. More and more businesses are also being

perk np, however. More and more businesses are also being started up by west Germans.

From its regular survey of 700 manufacturers in east Germany, IFO concludes that although conditions are still tough, expectations have improved. Industrial production is bottoming out. "From the presently low level, a revival could start in the second half of the year and continue next year." in the first half, output was roughly a third of last year's level. In 1992, it could rise by np to 10 per cent.

Spending ou the east German infrastructure, vital to support an economic revival, will hoost companies in the will hoost companies in the transport, telecommunications, and energy sectors. The massive past neglect of the environment also offers new opportunities to the host of west German specialists in water transports. treatment, surface decontami Hamhurg-based Vereins- und Westhank lists 18 west German

per cent.

quoted companies which should benefit from the colos-sal investment on environmen-tal protection.

Thus for many years to come, economic reconstruction in the east will give a huge lift to companies in the west. It will be a long time hefore industry in west and east Germany coalesces. Today, the contrast is still marked. While Germany is one of the world's Germany is one of the world's most powerful exporting and manufacturing countries, it is west German companies that have achieved that position.

This year, west Germany's industrial ontput has slowed down to a growth rate of around 2.5 per cent from the 5 per cent in each of the past two years. In 1992, however, says Westdentsche Landesbank, production should "climb markedly" in both west and

east Germany.
For companies in that means improved profits and secure employment. For those in east Germany, now starting their long trek towards economic viability, it means that the need for sheer survival is giving way to grad-ual prosperity. However hope-ful the signs in the east may be, however, arduous times lie

Andrew Fisher

Chemical giants are slow to go east, writes Andrew Fisher

The wrong time to gamble

GERMANY'S "blg three" chemical companies - BASF, Bayer, and Hoechst - have had a rough time in the past year or so, buffetted by raw material price rises, weak demand, and stiff price compe-

At the same time, they have continued to invest heavily in their main product areas and markets to reinforce their prominent position in the

world industry. So far, however, they have been hesitant about investing in the east; the risks are high, the clean-np task enormons and the development of demand uncertain. In time, though, east Germany, and possibly the whole of eastern Europe, should prove an important market for German chemical concerns.

Sectors such as pharmaceuticals have already benefitted from the wider German market caused by the introduction of the D-Mark and unity. As the east German economy picks up, slowly and patchily, the market for chemicals, plastics, fibres, paints and other products will increase sharply.

nles, demand from the east will still only be a small part of its total business, however rapidly the economy in the five new states recovers. It is western Europe, North America, and other industrialised markets which account for the bulk of sales and profits.

Analysts expect 1992 to be a much better year for the indus-try, the extent of tha improvement depending on the US. The economies of western Europe should also show more vigour. And although the west German economy is slowing down, activity will remain at a high level, notably in the construction, motor, and packag-ing sectors. These are hig cus-tomers of the chemical companies and will continue to derive an extra impetus from east German demand.

Mr Kiran Bhojani, an analyst with M.M. Warhurg Bank of Hamburg, expects margins in the petrochemical industry to rise as a result of the higher

dollar and better demand. He also breaks down the propor-tion of companies' husiness in the US to show how each stands to benafit from an upturn there: Hoechst, whose profits plummetted in the second quarter, derives 24 per cent of its operating profits from the US, Bayer 16 per cent,

and BASF 8 per cent. This year, the west German chemical industry expects pro-duction to rise by about 2 per cent. Turnover in the first half was nearly 4 per cent higher at DM85bn, with an 8 per cent rise in domestic business contrasting with a 1 per cent drop abroad. Profits in the sector were around 10 per cent lower than in the first half of 1990 on average. Capital spending should rise by 8 per cent to DM13.5bn, with another DM1bn being spent in east Germany.

Putting the east German chemical industry right - and deciding how much is worth keeping - will be a monumen-tal task. Much of it belongs to mostly ontdated, hopelessly uneconomic, and grossly over-manned. After decades in which the environment was a totally neglected and taboo subject, the sites also need an expensive clean-up.

BASF boldly moved in with a DM500m investment to modernise the Schwarzheide synthetics plant in southern Brandenburg, only to find that Soviet and eastern European demand quickly collapsed. The west German company has set its sights on long term prospects, hoping to use the site for expansion, but is disappointed that the turnround may be

Bayer is apending DM500m on a new production site in the Bitterfeld-Wolfen region of Saxony-Anhalt. The products will include polymars, industrial chemicals, and consumer products. Its involvement will be part of an industrial zone aimed at helping to regenerate

The very name of grimy Bitterfeld has become synonymous with the worst pollntion excesses of the old regime. The



A Baver technician at work: inves

Treuhand, east Germany's hard-pressed privatisation agency, reckons it will cost at least DM5bn to keep the sites of Leuna, Buna, Bitterfeld, and Wolfen going up to 1995. Another DM1.2bn will needed

to clean them np.
The Treuhand is trying hard to persuade companies, Ger-man and foreign, to invest, but with limited success. Tens of thousands of jobs are at stake,

and many will disappear, what-ever happens. Much further east, in the Soviet Union, Mr Karl Wagner, a Dresdner Bank analyst, sees opportunities for German chemical concerns, though only over a long period. Wintershall, BASF's energy subsidiary, is already working with Gazprom, the Soviet natu-ral gas producer, to deliver gas into east Germany. Hoechst plans a joint insulin venture in

the USSR and owns Unde, the chemical plant builder, which could benefit from modernisa-tion efforts in eastern Europe.

Yet however exciting such potential might be for German chemicai concerns, it is some way off. For the moment, they are more concerned with prospects in the west, hoping fer-vently that US and European economies really do taka a turn for the better.

Engineering swallows good news and bad

America holds key to revival

A COLD wind is blowing through the boardrooms of many German engineering companies. With exports down sharply, domestic demand stag-nating, and short-time working on the increase, the industry is

struggling.
The latest figures are bleak, although the industry is so varied that some sectors are prospering while others have slumped. In the first eight months of this year, new orders in the mechanical engineering industry were down by 8.5 per cent in real terms. Foreign husiness, which has been sliding since early last year, dropped by more than 18 per cent, with an 0.5 per cent decline on the home market. At the same time, there is plenty of movement afoot, in east and west Germany. To cope with the competitive chal-lenges of the 1990s, especially from Japan, west German companies are restructuring, mak-ing strategic acquisitions, and shedding peripheral activities, It is a process that will clearly

intensify, a hig example being the attempt of the Krupp

industrial group to forge a merger with Hoesch, the steel and engineering concern. But as well as gearing up for the struggla in western mar-kets, the west German industry is also moving into east Germany. According to Com-merzhank, west German machinery and plant manufac-turers have committed some

The D-Mark and the collapse of Soviet business exposed huge inefficiencles

DM7bn to investments in the east, with a total of 600 projects. The engineering industry in east Germany is, like the rest of the economy there, in a sorry state.

The coming of the D-Mark and the collapse of Soviet busi-ness exposed huge inefficien-cies and wiped out much of the order book. However, the bot-tom may now have been reached, with businessmen reporting a more encouraging export outlook. Even so, there

is a long way to go; the east German industry still has to switch to electronically from mechanically-controlled machinery and develop prod-ncts that foreign customers really want.
Until early summer, compa-

nies gained considerably from the upaurge in hasiness prompted by the needs of newly united Germany. Rebuilding the economy in the east will be time-consuming and expensive, with high prof-its for those who can provide the right equipment. Obvious heneficiaries of unification have been makers of building machinery, as the reconstruc-tion of east German factories, homes, roads, and public build-ings gradually gets under way. Food, packaging, and printing machinery have also been in strong demand. So, too, are safes and vaults as the big west German institutions have

come in to modernise tha financial system. In time, eastern Europe and the Soviet Union will again become important markets for German machinery. Nearly 40

west German institutions have

come from west Germany.
Companies such as Largi (the
plant building subsidiary of
Metallgesellschaft) have played
a big role in equipping Soviet
industry. Largi is consortium
manager of the ambitious Tenmanager of the ambitious Ten-guiz oil and gas treatment plant on the Caspian Sea coast

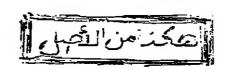
Engineering executives are hardly starry-eyed about prospects to the east

in the Kazakhstan republic. Schiess, a machine tool com-pany also owned by Metallge-sellschaft, has done husiness there for 115 years and is a minority owner in the country's first hig shareholding company, Sedin, producing tools near the Black Sea.

German engineering executives are hardly starry-eyed about prospects east of their newly enlarged country, howevar. Too many companies have suffered from payments

delays and the immanse hureaucratic and togistical problems in the Soviet Union. Tenguiz, for example, is so remote that a 420-mile pipeline had to be built to had to be huilt to pump in drinking water, shipping equipment from western ports took up to eight weeks; and the remote salt desert site suffers bitter winters, hurning sum-mers, and marciless sand-

As the world's higgest machinery exporter, Germany is bound to play a major role in helping to put the Soviet economy on its feet. But it is far more dependent on events in the US, western Europe, and Asia. If the hoped for US economic recovery really does get under way, European economies will benefit as well. Thus 1992, reckons Commerzbank, could see a pick-np in Ger. could see a pick-np in Ger-many's engineering exports. For such export-dependent hranches of the industry as textile, clothing, plastics, and rubber processing machine rubber processing machinery, that will be good news indeed



Andrew Fisher on the motor market's expansion

Opels replace rusting Trabis

WHEN the Berlin Wall came down amid scenes of jubilation in November, 1989, one of the most endearing sights was the hordes of little east German Trabis pouring across the border as their drivers savoured the new taste of freedom.

(X. TOBER 2

Two years on, the Trabant once, with the larger Warthurg, a keenly sought after vehicle in east Germany is rapidly disappearing from the roads. East Germans have been buying western cars, mostly second-hand, as fast as they can. Along with the flood of visitors from the west, this has led to intense congestion on many stretches of east German roads and more accidents.

The east German rush to buy western cars gave a timely boost to west Germany's motor industry at a time when markets in the rest of the world were slowing down. Companies such as Volkswagen and Opel (part of General Motors of the US) have been hard pushed to meet the demand; both are now investing in new assembly plants in east Germany.

The truck industry, too, has seen the benefits of reunification. Even though the east German economy is now going through the painful initial stages of wholesale reconstruc-tion, intense demand for western consumer goods and the development of a modern retail network has meant a hig rise in freight transport increasing construction work has added

Andrewie

to the activity. East German roads are now clogged with lorries from the west and truckmakers like MAN heve been reaping the benefits in increased sales. Mercedes-Benz, the vehicle subsidiary of the Daimler-Benz group, is also setting up a new truck plant near Berlin, Like VW and Opel, with their Golf and Vectra cars. Mercedes is already assembling its trucks

on a small scale in the revamped facilities which previously turned out east German vehicles.

Since the demise of IFA, the old East German vehicle concern, and the demanding stan-dards set by the introduction of the free market, the Trabants, Wartburgs, and IFA trucks were no longer saleable, As their production ended, thousands of jobs disappeared. The new plants will create new, more secure jobs. But in the meantime, the displaced east German motor industry workers are either unemployed

or on short-time. Many will be absorbed by the supply sector, since both

The vehicle plants in the new eestern states will be the most modern in Germeny

VW and Opel intend to work with a low level of vertical integration. Their new plants will make much use of flexible, efficient "lean" manufacturing methods in which a high proportion of parts is bought in from outside.

In a few years, therefore, the vehicle plants in the new east-ern states will be the most modern in Germany, with VW in Saxony, Opel in Thuringia, and Mercedes in Brandenhurg. Altogether, some DM100n will be invested in east German automobile production by the

As the east German economy is rehuilt and purchasing power and living standards increase, car ownership will approach that in the west; at present, there is nearly one car for every two people in west Germany compared with one for four in east Germany. The upsurge in demand

which boosted new car sales as west Germans sold their old models for high second-hand prices, is now tailing off, however. The petrol and income tax rises introduced to help pay for the cost of unity is also

dampening the will to huy. Export demand also remains weak, with the US proving a particularly dismal market; in the first eight months of 1991, car exports slumped by 23 per cent to 1.36m units. Production has been holding up this year, with 2 per cent more cars man-ufactured in January-August at 3.1m. As domestic demand weakens, that from abroad seems to be picking up, though

hesitantly.

It remains to be seen how these two trends will balance out, though it is obvious that the German industry is in for harder times. in the longer term, too, there is cause for concern. Japanese competition will hot up in post-1992 Europe, especially from the "trans-plants" in the US and Europe. BHF-Baok says the South Knrean threat must also be wetched. "What is beyond dis-pute is that, in the 1990s, competition in western Burope the most important region, with a share of world car sales exceeding 37 per cent - will

noticeably sharpen". For German car companies. therefore, the rest of the century will bring headaches as well as opportunities. Hence their efforts to curb costs, invest in the most modern equipment, and develop new production methods. The Japanese are already competing in the quality car market, eroding Germany's strong position, notably in the US. BHF thus concluded ominously: "The excellent image of the German manufacturers alone will not provide sufficient protection in Andrew Fisher takes a look at corporate investment in east Germany

Volkswagen is blooming in Saxony

THERE is a jolting sense of two very different worlds coming together when travelling to the site of Volkswagen's planned DM5bo plant in Saxony, the largest new corporate investment in eastern Ger-

GERMANY

It is not the plant itself. There, 280 shiny Golf cars roll daily off the production line as if east German workers had been huilding them all their

Next door, a vast factory hall has already been erected as part of the new assembly complex which will start up in 1994. The rest is still mostly a

building site. The incongruity comes on arrival at the Altenburg air-

"AMAZING" exclaims Klaus

Piltz. like a man who has never

seen a hole in the ground

before. He has seen many, of course, as he is chairman of

the Veba energy and chemicals

group which includes the lion's share of Germany's biggest

He is standing on a building site on the outskirts of Frank-

furt an der Oder, looking down into the foundations of a new

district heating plant. He has

been summoned from Düssel-

dorf to drop a copy of the day's

ocal paper down a time-cap-

sule tube, tap three times on a stack of bricks and declare the

foundations well and truly

A couple of months into the

construction phase, and the

project is already a week ahead of schedule. "Amazing. You

would never get this progress in the west," he says. It is turn-ing into an enlightening day.

Aral filling station in Schwe

While the auctions them-selves have mostly worked

greater transparency, for

instance an announcement of

well as criticism that the

anthorities have sometimes

entered into a hapless tug of

A recent hiccop in the other-

wise generally smooth funding

programme occurred as the

notably a constitutional court domestic investors.

the amount to be tendered,

war with the market.

coal miner, Ruhrkohle.

field which VW now uses for loading. Young Soviet pilots regular flights to east Germany from the north, where it is based in Wolfsburg.

After flying low enough over Leipzig to see the memorial to those who died fighting Napoleon and a nearby landscape mutilated by lignite mining, the small Czech aircraft lands at a Soviet military base, surrounded by silver birch trees. On the first such trip, VW officials and journalists were

cers. Speeches were made and cameras clicked. Around the big airfield, MiG fighters stood harmlessly outside their camouflaged, grasscovered hangars and military

transport aircraft waited for

met by four senior Soviet offi-

and recruits gazed expression-lessly at the VW party. VW had to argue long and persuasively before the Soviets would permit commercial aircraft to land at Altenburg, nearly an hour's drive from the car plant in the town of Mosel.

Its success is a telling example of how things have changed, both in east Germany, where western industry is moving in to transform a dilapidated economy, and in the Soviet Union, which previously held eastern Europe in

submission. Under Mr Carl Hahn, VW's chief executive, the group was quick to move into east Germany after the border was opened. Since Mr Hahn was born in east Germany - in Chemnitz, which the former Communist regime called Karl-Marx-Stadt – he has brought a strong emotional commitment

to VW's involvement there. But VW is not investing out of altruism. It wants to secure a strong position in a growing market and to be ready for expanding sales further to the

Thus It is also acquiring Czechoslovakia's Skoda car

In east Germany, it is taking advantage of generous invest-ment incentives and will also bear only a small part of the initial losses; the rest will be met hy the Treuhand, the privatisation agency. From the mid-1990s, VW expects to produce 250,000 Golfs a year at

Jobs, now around 1,600, will total 6,000. Altogether, VW says its presence will provide 15,000 jobs (including its dealer and ssrvice network), with 20,000 more in the supplier

The plant will be one of VW's most modern.

The surrounding area will also be attractively landscaped, with masses of trees and a topography designed to

dampen the noise.

That certainly is something which East Germany's plan-ners were never known to have bothered with.

Christopher Parkes on western industry's impact

Lightning campaign

tion depot and an advanced materials factory on the Berlin

periphery in Bernau. The foundations of his grand design - to mirror Veba's west German presence and market shape. But evidence of the cost is everywhere. Capacity at the Schwedt refinery, owned

The concrete stanchions propplng up the tangles of refinery plping are crumbling like sand

The chairman is on a hectic one-day tour of Veba's growing east German empire, helicopjointly with RWE, Agip of Italy and France's Total and Elf-Acter-hopping from football pitch to car park, dashing between a petrochemicals plant and an quitaine, is being boiled down from 11m tonnes a year to 6.5m tonnes. Local hoss Gerd Bukowski points to a building on the right. "That's a 2,000-man canteen. There are five on the Polish border, the Frankfurt heating plant, a nearby Stinnes do-lt-yourself

earnings is inequitable

While Bonn, which was given a deadline of January

1993 to comply with the court

ruling, has pledged not to unleash another wave of capi-tal flight similar to that pro-

voked by the last disastrous

withholding tax hastily abol-

ished in mid 1989, it is faced with the well-nigh impossible

more..." he says. But many of the 8,650 men who used to eat there are already gone, and more will follow.

By July the payroll was down to 5,000. By December it will be 4,200. By the end of 1993 it will be 2,600 and productivity and pay will then match west German levels.

The concrete stanchions propping up the tangles of refi-nery piping and tubes feeding heat to Schwedt's 20,000 homes, are crumhling like sand. Incongruons rickety brick smokestacks littering the 1,000-hectare site ("they didn't have the technology to build them any other way,") will offer a lifetime's demolition work to some local Fred Dibnah. The bill for renovation is expected to reach DML 55bn, of which almost half will he spent

on environmental protection The Schwedt story is being repeated all over the east. The town's former DDR army repair depot is closed; so is a factory which made children's shoes wholly for export to the Soviet Union, The 20 full- and part-time jobs provided at the nearby Aral station, and the "possibility" that Klingbeil, a Porlin doveloner, may build an Berlin developer, may build an hotel offer no consolation. But there is little sign of hopeless-ness about the place. "What is amazing," says Hubert Heneka, chairman of Veba Oel, "is that we have such an attentive,

motivated workforce." "When I told them our plans. including the need to cut the workforce, they applauded at the end and cheered. In the west I would have been booed. The people here know that industry must be reconstructed. Insecurity comes not knowing when or Frankfurt heating

Piltz muses on the message: "When you make it clear where the journey is leading, you can easily get people to come along with you." Then he

remembers who he is. We must not concern ourselves with the past, he declares. "We are here doing business. It is up to pecple to readjust and come to

At the petrol station six brands of champagne end Sekt ere on sale alongside components end oll

terms with the past and the future.

Down the road, local peop cramming the petrol station which Piltz has come to open re coming to terms with the six brands of champagne and Sekt on sale alongside the components and oil. Outside there is a line of 30 cars queueing in the old-fashioned way to fill up with petrol, as if nursing old-fashioned fears that as in the past the underground tanks, once empty, might not be refilled for weeks. Veba, however, is busy putting such fears to rest with a DM1bn filling station expansion plan continuing until 1996.

There is more to astound the Veba team as the helicopter hovers down the River Oder. There are indignant noises about the "primitive" farming methods of the Poles on the other side of the water who are polluting the air with smoke from their post-harvest straw-

Bnt Piltz's enthusiasm ls fired by his discoveries at the

try was going a little sleepy but the east has given us new impetus," he says. And he is openly touched hy the reception he has been given on his tour. "They have lots of advisers coming in. They are desperate for help and very trusting, but meure about whom they hut unsure about whom they should trust...It is important for me to come here and meet people and get a feeling for what is going on. "The Treuband (east Ger-

many's privatisation agency) is one point of contact for business information, but that is

not enough."

He drinks schnapps and beer, mingling with the construction crew who are (amazingly) dutifully sipping alcoholinee Clausthaler, and pocketing handfuls of kiwi fruit from a buffet table which is extravagant even by west German standards. He scans the maps lining the marquee erected for his visit, which show the Veha plant and its pipes threading through the town. Like many local maps on display today, lighted areas showing roads, depots, power stations, hotels and shopping centres all marked "geplant". Does this mean they are actually planned, commissioned, under construction? "No," says a young engineer. "It means they are needed."

Many of east Germany's needs are obvious without maps to illustrate them. And increasingly obvious is an apparent urge in the west to fulfil them by developing the new states to a condition in which they can be absorbed into a seamless new high-tech Germany, Flying at dawn above the broad swathes of forest, lakes and clear open countryside that separate Berlin from the Oder, Hubert Heneka sounds shocked: "It is a very fine landscape. But look! There are no people. No industrialisa-tion. There could be great potential for tourism: but we need the infrastructure. Where how. It has always been clear momentum of German indus- hotels. Amazing."

Katharine Campbell on the Bundesbank's role in national reconstruction

the long run in Europe."

Resilient use of debt financing ruling at the end of June that the current method of volun-tary declaration of investment

IN a recent monthly report, the Bundesbank prided itself on the claim that the burgeoning public deficits unleashed by reunification had been financed almost completely without friction".

Over the past two years, the German bond market has Indeed demonstrated a high degree of depth and resilience the public sector deficit rocketed from a mere DM26bn in 1989 to) roughly DM140bn

As the government's fiscal gent, the Bundesbank can fairly claim some credit for maximising this resilience. While its officials continually belabour the Bonn government about the perils of fiscal imprudence, they are also working with the ministry of finance to assure the mammoth task is proceeding smoothly.

The dimension of the under-

taking is reflected in the fact that gross sales of domestic income securities - which also includes bank bonds amounted to DM430bn in 1990, representing a 70 per cent increase on the previous year. In the first half of 1991, the equivalent figure had already reached DM220bn. With interest charges of around DM90bn this year alone, the government benefits from every basis point in lower yield that an efficient system can deliver.

There is plenty to criticise in major aspects of the overall debt management, including the government's stubbornness in acknowledging the need for higher taxes as well as for uncomfortable subsidy cuts. Also the proliferation of offbudget funds, beginning with the Unity Fund, has played havoc with any pretence of transparency – with the finance minister Mr Theo Wai-gel bandying around numbers become meaningless because of a failure of definition.

Bnt on a technical level, a bond market frequently critic-ised for its lack of sophistication compared with the US system has performed surprisingly well. Yields on 10 year government paper peaked back at around 9.10 per cent in February 1990, when the market crashed nearly two points as international investors painted horror scenarios of the costs of unification.

Yields bounced back more or less to those levels over the Iraqi invasion of Kuwait (also a month after currency union) and again at the end of 1990, but the trend has been generally downwards this year. The financing exercise has

been helped by the trend of falling interest rates in most of the rest of the world. But there has also been an evolving strategy, with the authorities calling on a wide range of techniques in order to

tailor their wares more effi-

ciently to investor appetites. A

central part of the strategy has



more evenly across the curve. Previously, the government's debt was very much bunched in two sectors, at five and 10 years. This process has entailed making more use of existing instruments, but also testing new ones. Last year the railways, postal authorities and then the Bund itself all dipped a toe into the floating rate note market with paper that was snapped up because of the dearth of D-Mark denom-

inated money market instru-This May, in an important enhancement to tha medium-term maturities, the Bundesbank instituted a regular two monthly tender of Bundesschatzanweisungen, bills with a maturity of two to seven years, (though to date all have

> The centrel government elso returned to the Schuldschein market

been tendered in the four year area). These Bund instruments have proved surprisingly popular with foreign investors; the Bundeshank notes that two thirds of the May and July tenders entered international port-

While some commentators have suggested the Bunds may he overloading the medium maturities, a report by UBS Phillips & Drew points out that this year there have been high levels of redemptions in the five-year Bundesobligationen (Bobis) leading to a sharp fall

Spreading activity along the curve has meant that there have been fewer, but much larger, issues of 10-year Bunds. The central government also

returned to the Schuldschein market. These tradeable loans which are placed privately and hence with less disruption to the capital markets have proved appropriate vehicles for the Unity Fund as well as for some Treuhandanstalt borrow-

Desperate to avoid heing

forced to issue a coupon as

high as 9 per cent, the ministry

of finance was even persuaded

by advisers from an American

summer of 1990 to include a series of embedded options in some of its Schuldschein issues, granting these cheaply as a sweetener to banks, which could then strip out the options and make a hefty turn. The Bund's balancing trick finally failed at the end of last busy issuance period in the

final quarter, with the first 9 per cent coupon. old issues reopened on several occasions — have helped to create the extra liquidity crucial to institutional investors. The advent of government bond futures contracts has also greatly improved the quality of the cash market, starting with the London Bund future three years ago. Now the German

This month the DTB added a medium-term Bund future, which has made a promising start, and will also open the way for more sophisticated

The Bundesbank bas also adopted a higher profile in its market-smoothing operations. The central bank has taken larger than usual slugs of the 10-year issues for instance, which it has off-loaded into the market via stock exchange sales on days when yields are

One of the most significant changes for international investors, however, is the move to reform the issuance structure for 10-year paper. In a process criticised as far too gradualist, the authorities are chipping away at the old con-sortium dominated by the powerful German banks and edg-ing towards a full US-style

uction system. In mid 1990, the 1% per cent commission for consortium banks was reduced to % per cent - lowering the govern-ment'e borrowing costs signficantly - and a part auction system was introduced, In which the banks bid competitively for a part of the issue. Here no commission is paid, and the foreign banks, in the past allocated only around 20 per cent of the lucrative consortium business, can bid alongside domestic institutions according to their placing

This month those whose historic quotas no longer fitted their selling capacities were rewarded with the first consortium quota reallocation. While the calculation, the exact basis of which remains secret, was based partly on performance in past auctions, a weighting of around half was also given to sales of other fixed income securities including tap issues, which would clearly favour the domestic institutions. But foreigners have been given considerable further incentive to bid aggressively and the domestic banks, accustomed to easy commissions, sent a warning with the promise of regular



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would produce monolithic Other critics feared that the area will be deprived of urban-ity as all but service busi-nesses, expensive restaurants and exclusive bounques will be

excluded by exorbitant rents.

The way is now open for the

companies which have invested in the choice Potsda-



Berlin's Reichstag building flies the flag: a discredited past and an uncertain future

Leslie Colitt on the revival of Germany's historic capital

Berliners count the cost

FOR most of this year politicians in Bonn intensely debated whether parliament and the government would be ready to move to Berlin in seven, nine or even 12 years.

bureaucrats to resettle as well as German perfectionism were among the explanations offered for the unreal debate Parliamentarians argued that the Reichstag in Berlin, restored in the 1960s, would need to undergo a costly modernisa-tion before they could agree to

Others insisted the Reichstag was so tainted by its history that a wbolly new parlia-ment had to be built to bouse the Bundestag.

But the new German capital, even lacking the attributes of political power, has become a magnet for speculators and fortune seekers. Property prices have soared to among the highest in Germany and reward notices of up to DM10,000 to the person finding an available flat for rent are common in res-

idential streets. In east Berlin, fivefold rental increases this month and more to come will make the inner city too expensive for many long time residents. Following

Triedly Trider Per Land Company of the Company of t

MORGENIANT SERVE

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Algernoen Padhad

Quitemburger About

a pattern familiar in the West, the economically weak will be forced out and the way opened for new luxury housing and office blocks.

Nearly 300,000 east Berliners who live in drafty, prefabricated concrete apartment blocks on the periphery of the city also face an uncertain future. Rents which formerly made up a tenth of their income may now consume np

Planning laws will protect the city's remarkably unspolled countryside

Most alarming, though, is the deterioration of the social fabric in these housing estates. Middle-class residents are losing their self-respect along with their jobs. The potential for future crime is great as is the danger of rightwing politi-

cal radicalisation.

Mr Volker Hassemer is the thought-provoking head of tha Department of Development and Environment in an otherwise inslpid Christian Democratic-led Berlin coalition government with the Social Democrats. His City Forum has become a platform for a democratic, albeit elitist discussion of city planning.

He advocates concentrating new construction on available sites within the city in order to avoid urban sprawl. The remarkably unspoiled countryside just outside the city limits is to be retained by eoforcing strict German planning laws. City planners envision that Greater Barlin will develop where it left off before the war, along the S-Bahn urban railway network which forms a ring around the city. The S-Bahn is to be modernised and expanded so that residents of

the new communities will com-

mute by rail instead of car into the city. Berliners were spoiled by the relative ease with which they could travel by car into the city centre and find parking space. But the enormous increase in traffic from east Germany and east Berlin is putting paid to this luxury. At present 60 per cent of transport is by car and 40 per cent by underground, S-Bahn, bus and

The city aims to boost public transport to 80 per cent in the next decade by penalising driv-

"Investitionsgüter sind

"Baviera, la chiave per

l'Est è nella California

"Standort Bayern:

(Tages-Anzeiger, Zurich)

"La Bavière compte

les plus prospères de

parmi les régions

Grüss Gott, High-Tech!"

tedesca'.

l'Europe."

(Les Echos, Paris

(Italie Oggi, Milar)

die Stärke der Bayern.

private car. Since early last year Berlin planners have agonised over the rebuilding of Potsdamer Platz, one of the busicat squares in Europe before the war. Reduced to a barren, wind-swept field bisected by the Wali, Potsdamer Platz came to symbolise the division of Berlin and Germany. It was one of the prime undeveloped

ing access to the city centre by

Unlike other capitals, Berlin will keep many of its communist monuments

urban sites in Europe and is to become a symbol of the reunifi-cation of Berlin and Germany. Early this month the planners selected a model for developing the square and adjacent Leipziger Platz, the gateway to east Berlin. It was hailed as a modest, European-scale solution which rejected skyscrap-ers and restricted developers to 35 meter high buildings. How-ever, Daimler-Benz, which plans to build an office building on Potsdamer Platz.

sbarply criticised the limita-

tion on height which it said

AND THE RESERVE OF THE PARTY OF

"Bavaria -

economy.

centrum.

Europe's most dynamic

"Bayern - et tysk vaekst-

"Baijeri on Saksan

"Beieren ontvangt high-

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"La Baviere de tous les atouts fait signe aux

(L'Echo de la Bourse, Brussels

"Bayern. In 40 Jahren

vom Agrarland zur High-

investisseurs.

Tech-Region."

kasvuveturi. "

mer and Leipziger Platz real estate - Daimler-Benz, Sony Asea Brown Boveri and Hertle to offer inspired architec

tural designs for their buildings.
It is a challenge few German companies have managed to meet until now. Not far from statue of Lenin erected by the Communist authorities in the early 1970s on Lenin Platz and surrounded by ugly high-rise apartment blocks. The statue is a source of intense irritation

to some Berliners who want it

removed and the square

But residents on the square many of them supporters of the Democratic Socialist Party (PDS), the anccessor to tha Communist Party, insist the statue must remain. Remarkably, the authorities appear to agree. Statues and other Com-munist relics of the postwar era are to be preserved unless they offend the public. The lat-ter was not the case with Lenin, city officials decided. Streets named after other

Communist bigwigs, however, are to be changed but unlike Budapest, Prague and Warsaw there has been no rush to do so. The memory of wholesale name changes of streets and squares under the Nazis and then the Communists may explain the reluctance to wipe out the recent past. One Communist leftover which the city is anxious to restore is the for mer Stalin Allee, lined with comfortable, 1930s Moscow-style apartment hulldings which were built in the early

1950s.

The spacious flats, however are not likely to remain affordable much longer for their low income east Berlin occupants. While east and west Berliners mingle in the marketplace and more than 80,000 Easterners work in west Berlin, they remain economically and emotionally divided.

"We are not yet Berliners, we are still east and west Ber-liners," Mr Hassemer remarked wistfully. DM16 a bottle and is matured

Leslie Colitt tells a tale of whisky galore

Spirit of Prussia

MR CURT FALCKENTHAL, a for three years in wooden spry 81-year-old east German caska "according to the EC entrepreneur, had the rare norm", he stressed. spry 81-year-old east German entrepreneur, had the rare experience of owning a thrivexperience of owning a miv-ing company, seeing it nation-alised but continuing to man-age it and finally getting back his former company last year. "I'm just an old Prussian. Sense of duty, you know," he said only half-joking. But mon-

etary union with wast Germany last year nearly bank-rupted the reprivatised C.W. Falckenthal & Sons, makers of fine liqueurs in Luckenwalde since 1791.

East Germans decided every-thing made in the West, including spirits, was automatically better. Sales plummeted to 10 per cent of the previous vol-ume and Mr Falckenthal seriously considered selling out to the competition. "Business friends cautioned me not to sell to a west German competitor who would simply close us

The company was saved at the last moment. In September of last year, east Germans again felt a yearning for the old, familiar east German products, albeit in more attractive

digestive liquaur.
The success of the Tengel-mann contract will determine

walde, a town of 27,000 to the south of Berlin. The former stata roller bearing factory with 2,000 employees is shut

down and use our name," ha recalled.

packaging.

Although it was too late for many bankrupted companies, C.W. Falckenthal has seen turnover rebound to nine times the level of last Autumn. Planned sales of DM24m this year are now expected to be exceeded. The 20 per cent of production currently sold in west Germany is to be expanded to 70 per cent with the help of contracts such as the recent one with Tengelmann, a leading west German supermarket chain. Tengelmann is taking 25,000 bottles a month of Der Falckner whisky and the best-selling Klosterbruder herb

whether or not Falckenthaler can retain its present 52 employees, down from 92 last year. Mr Falckenthaler's whisky - clearly laballed Deutsches Erzeugnis (German Product) - retails for about

Under the company's former state director who replaced Mr Falckanthal when he was ousted in 1980, the whisky was kept for 18 months in metal tanks. The ex-director and his

deputy departed last year.

Reflecting the grim economic climate in east Germany, the reprivatised liqueur company is now one of the few production companies left in Luckendown as is the vast textile mill



and the former hat and metal fittings factories.
"We have close to 70 per cent unemployment here," Mr Fal-ckenthal said shaking his

head. He was pessimistic wbether many Mittelstand (medlum-sized) companies would again take root in east Germany where thay once flourished. The Mittelstand was only being supported "on paper" he said. The company invested

DM1m this year in a new bottle filling line and lahelling machinery which meant it could get along with only 32 employees according to Mr Manfred Memmert, the manag-ing director. But if sales picked up further then more people could be retained. The distillery got bank loans

Trenhand agency for privatisa-tion – the agency still holds 65 per cent which Mr Falcken-thaler wants to buy back – which was essential in order to pay the spirits tax a month in advance as required. The Treu-hand later withdrew the guarantee as it did with other com-panies without any evolanation.

Mr Falckenthaler's age has

Mr ranckentnaters age has led him to rely on Mr Mem-mert, who joined the company last year from the spirits tax division of East German Customs, and Ms Helga Hennig, who is in charge of finance. who is in charge of mander. She also guarantees continuity, having served both under Mr Falckenthal and later as the economic head of the national-

ised company.
"I never dreamed we would become private again. But we all knew that things could not continue as they were," she remarked. Mr Falckenthaler's son, whose haulage company works under contract for his father, does not appear to be interested in taking over the

family concern.
Mr Falckenthal relates his harrowing postwar experiences as an entrepreneur in Sovietoccupied East Germany with remarkable equanimity. The largely-intact factory and distiliery became part of a trust company in 1945 and produced exclusively for the considershie needs of Soviet forces.

In 1947, the company handed back to his father by an official in Potsdam who was an old-time German Communist ("They weren't all bad," Mr Falckenthaler recalls). But the company'a deposits of Reichsmark 6m in 1945 were gone forever. He was arrested in 1953 on tax charges and released after the uprising of June 17, four months after

entering prison.
"That was the start of the "new course" which meant I could buy a copper still for a new distillery, he recalled. But in 1972 the precarious existence of an entrepreneur under socialism ended when C.W. Falckenthaler & Sons was nationalised along with 11,000 other private companies.

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The anti-pollution drive is set to slow down

of DM3m guaranteed by the

A darker green

GERMAN unification is proving a serious problem for the energy sector and hence the environment. The takeover of the east German electricity supply and distribution industries by the big west Ger-man utilities has run into legal o German giants, BASF and Ruhrgas, are slugging it out in the gas sector at the expense of east Ger-

man consumers.
As a result of the former problem the cleaning up of the highly polluting east German power stations may be seriously delayed and the general target of phasing in west Germany's rigorous environmental regulations by 1996 now seems

certain to slip.

Germany will continue to desarve its reputation as a front-runner in environmental legislation, see for example its ambitious new plans for recycling all forms of packaging, but unification has temporarily demoted the environment as a political theme while at the same time making Germany a great deal more polluted. (Germany, after integrating the east, is now Europe'a biggest per capita producer of carbon dioxide at over 13m tonnes a

year). Caring for the environment costs money and, thanks to unification, Germany currently has little to spare. There are already murmurs that Germany's highly ambitious target of reducing carbon dioxide emissions by more than 25 per cent by the year 2005, when the EC as a whole is proposing only to hold emissions at their current level by the year 2000, may not be feasible. Levying the planned carbon tax of DM10 a tonne on households and industry, at a time when other taxes and dnties have been rising to help pay for unity, will be politically diffi-

But the most immediate setback to the establishment of an environmentally-sound energy sector in east Germany is the decision by more than 140 east German local authorities to complain to the Constitutional Court about the terms of last year's takeover of the electricity supply industry by the main west German ntilities. The Treuhand privatisation agency sold, at a price yet to be agreed, to RWE, PreussenElektra and Bayernwerk, the elec-tricity generation industry and a majority stake in another company formed out of the 15 regional distribution enter-

prises.
It is the latter deal to which the local anthorities are objecting claiming that it restricts their right to produce their own electricity, as many of them did before the war pro-viding them with a useful extra source of revenue. They argue that local generation is cheaper and environmentally sounder and is backed by the European Commission and by the German constitution. The Constitutional Court will

decide early next year.
In the meantime, the west utilities announced an investment strike. They had been hoping to re-coup much of the DM40bn to DM60bn investment needed to modernise and clean-up east German electricity production through semi-monopoly prices at local level.

That may now be in jeop-ardy. Until the judgment we are suspending all major investment," says Mr Frie-dhelm Gleske, chairman of RWE. The RWE spokesman, Mr Thomas Klante, adds: "Wa originally wanted to establish west German environmental standards by 1996 but that is

no longer possible."

Even prior to this legal attack on their takeover the deal was not looking an espe-cially favourable one. The costs of modernisation appear to be far higher than originally estimated and demand has slumped by about 40 per cent (which is at least environmentally beneficial) thanks to the economic crash and the phasing out of healing subsidies.

If the local authorities now

succeed in winning the right to produce their own electricity the ontlook will look even gloomier for the utilities, espe-cially as it will encourage more local authorities to opt out of the semi-monopoly west Ger-man system. The utilities may

even withdraw from the east German deal altogether.

The original deal did, after a struggle, concede some rights to local authorities. For example, in exchange for handing over the electricity selling fran-chises in their districts the authorities are allowed a share in locally generated profits up to 49 per cent.

Frankfurt an der Oder which has gone into alliance with the US company Bonneville Pacific Corporation to produce electricity for its region. Frankfurt has no money so Bonneville will build it a new 76-megawatt will sell electricity at nearly half the price planned by the big utilities. Bonneville will pay Frankfurt for the use of the town's old distribution net and after eight years will give the town the option of buying the power station.

But that was not enough for

This is a very attractive model for the local authorities and if they win their court case many more towns will be knocking at Bonneville's door. The energy sector may yet turn out to be a case of east German improvisation helping to break-down west German

rigidities.
The costs of unity and the snhsequent need to reduce west Germany's subsidy moun-tain, sometimes estimated at DM130bn per year, has also renewed pressure on the DM10bn in subsidy for the west DMIOhn in subsidy for the west German coal industry. Half of that DM10bn comes from a levy on electricity consumers who pay the generators the dif-ference between the price of the 40.9m tonnes of domestic coal they burn and the world market price. The rest of the subsidy is paid direct by cen-tral government or the coal producing states.

producing states. Mr Jürgen Möllemann, the Mr Jürgen Möllemann, the economics minister, wanted to reduce the total quantity of subsidised coal from 71m to 45m tunnes, at least until the year 2005, although he has now offered the miners a compromise of 50m, which they do not seem inclined to accept. But the European Commission the European Commission, which is increasingly worried about German coal subsidies, may give them no choice.

David Goodhart

FINANCIAL TIMES RELATED SURVEYS Oct 29 1991

ITALIAN INDUSTRY HUNGARY **PORTUGAL CZECHOSLOVAKIA**

DENHARK **BAŞLE AND UPPER RHINE** NETHERLANDS

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SECTION IV

roadblock Page 2

Monday October 28 1991



The recession has come at a difficult time for the Black Country, restraining, but not extinguishing

the momentum of regeneration in this old industrial heartland.

Paul Cheeseright monitors the pace of progress in creating favourable conditions for growth in the future

A battery of efforts

ACKERS Jarrett, Dartmouth Manufacturing, Phipps Plastics, ACT Computer Support, Bolinden MKM, Dowty Aero-space, Josiah Parkes, Bass, Birmal Components, IMI, Wyko,

HDA forgings...
A miscellany of company names, some well-known, some not. They have two things in common. First, they have operations in the Black Country. Second, they are on a lengthening list of companies laying off people. Recession is hurting the four boroughs of Dudley, Sandwell, Walsall and Wolverhampton which wrap around the western and north-ern sides of Birmingham to make up the Black Country.

This recession has come at a difficult time, restraining, hut not extinguishing, the momen-tum of regeneration in what remains one of the UK's harshest areas. Social conditions, it is true, have changed since one angry writer before the Second World War looked into what he called the "vast smoky hollow" and pronounced it "wilderness", "a smouldering carpet". Certainly it has been an indus-trial battlefield.

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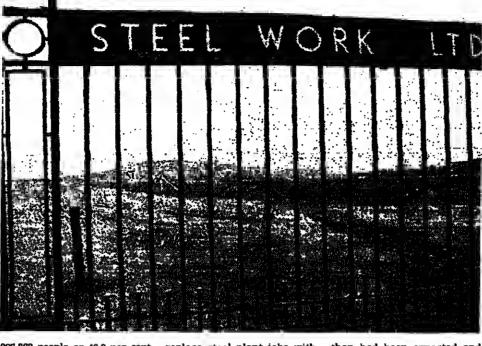
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More recently, the Black Country Development Corpora-tion, in restrained prose, noted bow the economy "based historically on the making and working of metals, drastically declined in the late 1970s. The run down and demise of local companies left a chain of derelict and polinted waste-land, high unemployment and depressed industrial town-

ahips."

Just as they did before the
Second World War, these industrial townships merge into each other; clusters of factories, shops and homes, held together by a web of minor roads, divided by rivers, rail-ways and canals. Local loyalties remain fierce. Certain districts are historically associated with certain products - Willenhall for locks, Darlaston for nuts and bolts. Stourhridge for crystal. Walsall for leather goods - hut the influence of the motor industry

There are contrasts. As the industrial activity tapers off on the western and north-western sides, the leafy Conservative-voting suburbs appear. But the Black Country is natural Labour Party territory and the representation on all four local councils reflects this. Indeed, the West Midlands Low Pay Unit calculates that in the Black Country there are



207,260 people or 46.2 per cent of the workforce beneath its low paid threshold of £172.13 for a 38-hour week.

All the boroughs can point to the statistics of deprivation. The Sandwell Health Authority has noted that 10.3 per cent of bomes in the borough are eemed unfit properties, about twice the national average. that the number of homes lacking basic amenities are three times the national average. The Walsall Training and Enterprise Council observed thet 70 per cent of the borough's unemployed live in a designated "inner area programme priority area", where 72 per cent of the ethnic minor-ity population live.

It is against the background of economic and social difficulty that a battery of effort at local and national level to improve the environment and revive the economy has been taking place. The effect has

been mixed. In the early 1980s, Enterprise Zones, offering tax concessions to establishing businesses, were set up in Dudley. The start was slow, but the industrial estates filled up and the vast Merry Hill shopping centre came out of the ground. The effect partially was to

replace steel plant johs with retail. While this represented a significant shift of employment patterns, at the same time It compounded the difficulties faced hy existing and tradi-tional shopping centres such as Dudley and West Bromwich.

Towards the end of the

decade, the Black Country Development Corporation came into existence, charged by the UK government with the regeneration of 10 square miles of Sandwell, Walsali and Wolverhampton. Its activities in fostering new housebuilding have gone some way to offset-ting the sort of deprivation to which the Sandwell Health Authority drew attention. It has started to heal the industrial sores of polinted land with extensive land reclamation work. It has fought the fragmented land ownership of its designated area to assemble tracts now available for new development. But it has been thwarted on its two projects of

highest profile. The first of these is the Black Country Spine Road, designed to ease communicadesigned to ease communica-tions in a notoriously clogged area, and to open up access to new commercial activity. But escalating cost estimates, more difficult ground conditions

over-specification made the Department of Transport in London take fright, Central government funds will meet 168m of the 193m costs of a road reduced in specification and at roughly half the length originally envisaged. The second is Sandwell 2000,

the name given to the old Patent Shaft steelworks site. Here the vision was a buge new shopping and leisure cen-tre. Speyhawk, the selected development company, stresses devotion to the project but reasonably argues now is not the time to raise finance for it. Many believe that Sandwell 2000 has lost its place in the market to Merry Hill. Certainly, Sandwell Metropolitan Borough Council, the majority landowner of the site, believes that is the case and now wants the land designated for business and industrial use.

While the Black Country Development Corporation has been wrestling with these problems, Wolverhampton Metropolitan Borough Council has succeeded in its hid to wrest urban development funds from the UK government. It is one of 11 authorities whose bids for City Challenge funds were accepted. This will create the



end leisure centre on the site of Sandwall 2000 (left) has faded temporarily as a result of the recession and the successful Merry Hill shopping complex (right)

city wards of St Peter's and Low Hill, which, the council said, "have the highest levels of unemployment and social

deprivation in the borough". Change in the physical envi-ronment, actual and potential, set off by the public authorities has been matched to some degree by the larger local companies as they seek new uses for land left redundant by the departure of heavy industry. The steel works, for which the Black Country once was famous, have disappeared. In this context two of the larger developments are taking place

Black Country's third focus of centrally funded regeneration. It will concentrate on the inner and on land next to the M6, owned by Triplex Lloyd, the industrial group, where a retail warehouse complex has brought about change of the sama character as Merry Hill

in Dudley. But the speed of change depends on the national and local economies. Here the omens are not immediately promising. Few in the Black Country share the UK government's optimism about general recovery. Rather, further retrenchment seems on the This is evident in the unem-

ployment rate: It rises remorse-

and 13.8 per cent in Wolver-hampton. Tha latest Walsall Chamber of Commerce business survey, a useful barome-ter for the whole of the Black Country, suggested, as the Chamber put it, "that the recession should bottom out in the fourth quarter". The downward trend continued in the third quarter but at a slower rate than previously, and, if there are glimmers of hope, they are in the chamber's analysis that, "for the first time in 12 months there are more firms expecting an increase, rather than a decrease in orders".

Cradle of the industrial

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atili abounds......Page 2 Labour and training:

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■ Land reclamation: Prob-

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lessly. By the end of the sum-

mer it was 9.48 per cent in Dudley, 11.2 per cent in Wal-sall, 12.8 per cent in Sandwell

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naath it.....

changes

change

ment sets the pace ■ Pienning: Rough ride for designers of a Spine Road

But, all will not be well with the Black Country simply because company order books fill up again. The relative insularity of the husiness community, its lack of knowledge of the implications of the strengthening of the European Community internal market. the problems of diversification of markets and products away from the British motor assem-blers - all of these combine to make a business agenda of greater importance than the short-term twists of the eco-

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TRANSPORT AND COMMUNICATIONS

Bad connections for travellers

community constantly reiterates its demands for new and improved communications within the area. When the four chambers of commerce lobbled this year's party political con-ferences, transport links were a preoccupation.

A survey carried ont for the Confederation of British indus-try by Handley-Walker, consultants, showed last year that a third of businesses thought road connections were poor and that a quarter thought rail connections were poor. Only 10 per cent of the respondents considered the departments of environment and transport

were doing a good job.
Certainly, travel la notoriously difficult in the Black
Country: easy to find but difficult to penetrate. There are hosts of narrow roads criss-crossed by rivers and canals. The industrial estates and residential areas are cheek by jow. in a tangle which would appal any contemporary urban plan-ner. And, of courss, tha amount of traffic is increasing all the time.

Commissioned by the four boroughs of the area, the Black Country Development Corporation and Centro, the operating arm of the West Midlands Passenger Transport Executive, the Black Country Integrated Transportation study warned that over the next 20 years it would be necessary to spend £2bn "if severe environmental and economic degradation is to be avoided".

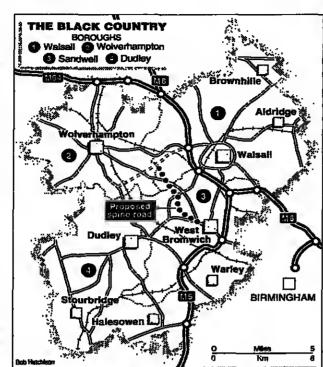
This study, prepared by Transportation Planning Associates and Ecotec Research and Consulting, advocated, inter alia, a shift from private to public transport investment and the grant of some priority to public transport over private vehicles.

But, even apart from the fact that the £2bn is far in excess of any existing planned expendi-ture for the Black Country, its emphasis on public transport seemed to put it at odds with central government thinking.
There is among Black Coun-

try public bodies scant sympathy with the notion, enthusias-tically grasped by the UK government, of toll roads around the periphery. Local authorities and business organisations have been consistently opposed to making traffic pay to use these western and north-

ern orbital routes. The first of these, for which no developer has yet been ould run down the west side of the Black Country. The second, running between iunctions four and 11 of the M6, skirting the north-east of the Black Country, will be built by Trafalgar House and Italstat, the Italian group which is Europe's biggest toll road operator, at a cost, including financing charges, of up to

Dudley Borough Council fears that, on the western orbital, tolls will hurt local industry and that they will be a deterrent to companies thinking of relocating to the area. The Walsall Chamber of Commerce is worried that there will not be enough junctions on the northern orbital. It argues that it is not enough simply to have a by-pass: if the new route is to benefit the Black Country economy then there has to be access to it. Further, as the new route could benefit newer business areas, such as Fradley airport, Lichfield, there is the danger of



potential new husiness being siphoned off, unless there are

But it is the internal communications of the Black Country which most worry local busi-ness and which attracted the most attention in the Integrated Transportation study. The key to road planning in the area is two routes - the Black Country Spine Road which would run north-west and then northwards from junction one of the M5 to Sandwell 2000, the old Patent Shaft steelworks site, before threading through a heavily industrialised district to meet the Black Country Route running westwards from junction 10 of the M6. The effect of the new

The industrial estates and residential areas are cheek by jowl in a tangle which would appai urban planners

rontes would be to open up the clogged communications of the

But the Black Country Ronte so far is only about a quarter complete and the Spine Road tion for the Spine Road has been lowered to dual carriage way from motorway standard. The central government will meet £68m of the £93m cost of building from the M5 to Sandwell 2000. The Black Country **Development Corporation will**

have to find the balance. The Black Country local authorities and Development Corporation are urging the remment to fund the road to its full length, so far without

Business pressure for the whole road was evident when the chambers of commerce were at the party political con-ferences. The government's response is that the important thing now is to get on with the modified road plan as soon as possible. Enough is enough, it seems to be saying.

Traffic congestion, however, could be eased by the construction of the Midland Metro rapid transit system. "Accessibility by public transport will be substantially improved by the

Metro," the integrated Transportation study concluded. The first line, which has received parliamentary approval, would run from Birmingham to Wolverhampton, cutting right through the Black Country.

This month the government agreed to provide £1.5m for further development studies, without making any commit-ment to construction funding, so there is not likely to be much relief from the Metro until the mid-1990s at the earliest. Later lines, the future of which at this stage is cloudler than the first line, would connect Wolverhampton with Walsall, and Walsall with Dndley with an extension to Stourbridge. But the whole process

is painfully slow.

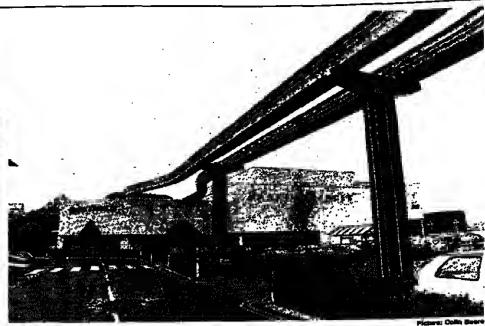
Meanwhile, there remains
the question of the railways. There has been sustained pressure on British Rail for an improvement in the quality of local passenger services, but this is not confined to the Black Country. West Midlands commuters in general feel themselves hard done by. Brit-ish Rail recently has been seeking to allay fears that its Inter-City service from London to Birmingham and Wolverhampton will end at Birmingham; this follows its decision to cut the Wolverhampton-Shrews-

But the main controversy relates to rail freight. Black Country Development Corporation plans to consolidate three steel terminals, at Great Bridge, Wednesbury and Wednesfield, into one large operation at the Bescot marshalling yards in Walsall and build the requisite link road. This has aroused local opposition.

bury intercity link.

One of the thoughts behind this move is that the Bescot development would pave the way for the use of the marshal. ling yards as the West Midlands freight terminal for Channel Tunnel services. But British Rail has yet to make up its mind on the suitability of Bescot as opposed to a competing site to the east of Birming-





Stewart Dalby investigates property and enterprise zones

Merry Hill is a twin development

INDUSTRIAL and commercial property developments and, to a lesser extent, housing in the Black Country, are dominated by two facts of life. First, there are enterprise zones in Dudley, one of the four boroughs which make up the area; second, there is an urban development corporation in parts of the other three boroughs, Sandwell, Walsall and

While offices, shops and factories have been built in the Black Country area, most notably in Wolverhampton where the borough council has been responsible for bringing on stream a number of sites such as the St David's business park and the Chubb centre outside the UDC area, most projects of any size have been undertaken either in Dudley, in the enterprise zones or within the urban development area.

Perhaps the best known development in Dudley is the Merry Hill shopping complex. This is a 1.8m sq ft shopping and leisure complex built by the 61-year-old Richardson identical twins, Roy and Don.

Don says: "We were born within walking distance of Merry Hill. We really believe in the regeneration of the Black Country." The Richardson twins, who left school at 14, sold their truck distribu-tion business in the 1960s to concentrate

on property development.

One of their latest ventures is the conversion of the £70m John Lewis

department store - now standing empty in the centre of Birming-

ham - into offices and shops.

Don Richardson proudly says: "We used to get taken to John Lewis every

Christmas as kids. A real treat, it were. Now we own it."

The Merry Hill complex was conceived in the early 1980s when the Richardsons bought 300 acres of the 500 acres of the enterprise zone created in 981. A second, smaller enterprise zone of nearly 200 acres was created in Dud-

lev in 1984. The advantages of enterprise zones include exemption from local anthority rates on industrial and commercial property (but not on water rates or other charges); 100 per cent capital allowances for corporation and income tax on all industrial and commercial buildings of any size for any purpose; greatly simplified planning control.

Asked whether this meant that buildings could be put up on enterprise zones for next to nothing because of the tax breaks. Don Bichardeon churches

tax breaks, Don Richardson chuckles and says: "I wouldn't say that. Noth-ing's built for nothing these days. What it does mean is you can put up a build-ing without having any debt on it. If you have no debt you haven't got buge

interest payments."
The favoured method of developing on enterprise zones is to sell the building, often before completion, to an enterprise trust. This works something like a business expansion scheme, A trust is set up to take advantage of tax allowances on enterprise zones and many individual shareholders take part

in the trust. They get their return from pre-lettings or, if there are no tenants readily available, rent guarantees can be built in as part of the cost of putting up the building.

For prospective tenants there is the attraction of no business rates for the life of the cost of putting the cost of the cost of putting the cost of putting the cost of the cost of putting the cost of putting

life of the enterprise zone. This advan-tage runs out for the first enterprise zone this year, but lasts until 1994 for the other

The Richardsons have funded a number of their developments by using enterprise trusts. But the original Merry Hill complex they were able to build themselves, partly because they bought the land at the bottom of the

They quickly sold the original 126-acre development to the Mountleigh group. This area consisted of 1.4m sq ft of large stores and shops, a large floor area, a number of retail warehouses, two restaurants and a 10-screen cinema. An unusual feature of the centre is a 1.5-mile monorail.

Mountleigh is trying to sell on the complex. Meanwhile, the Richardsons are continuing with their Waterfront project, a high-quality development of more than 300,000 sq ft of offices and B1 light industrial premises close to the shopping centre.

Don Richardson says he prefers developing on enterprise zones rather than on land owned by the an urban development corporation. "UDCs are supposed to have streamlined planning procedures, but it usually means one more level of bureaucracy to deal with,"

hs says. In spite of this, he and his brother are discussing projects with the Black Country Urban Development Corpora-

Having a UDC in place does have its advantages, not least the ability to give grants to developers to reclaim and rehabilitate land. Or it can spend its own funds on reclamation and decon-

The advantages of putting up indus-trial office accommodation in the Black Country is the lower costs. Land is much cheaper. It can start at £100,000 an acre which means developers do not need such a large return. Rents for warehousing can be as low as £3 a square foot, half that in Birmingham.

The highest rent found so far for a B1 property is £12 per square foot. Two years ago premises in Birmingham were fetching £20 a sq ft. In spite of the cheapness, however, it should be stressed that the Black Country is not Birmingham. Birmingham is developing as a service centre and a husiness tourism town. The demand for

office space is likely to grow rapidly once the recession ends.

The Black Country, partly because Birmingham is so close, seems most unlikely to attract service industries in great numbers. It is more likely to see an expansion of its traditional metal-based industries and matter components. based industries and motor components companies. For these there is plenty of land available at reasonable cost.

BLACK COUNTRY DEVELOPMENT CORPORATION

Master plan strikes a roadblock

mute to it. Compulsory pur-

chase orders for existing indus-

THE Black Country Development Corporation, like its counterpart for Cardiff Bay. has created the feeling that realisation of its development plans are contingent upon the building of a large infrastructural project. In Cardiff, the stumbling

block was a barrage across the Bay to create a freshwater lake. in the Black country, a spine road through the corporation's area linking the M5 and M6 motorways, is deemed vital for the realisation of large projects the corporation wishes to promote. Piecemeal developments have been possible in Cardiff and in the Black country, but the integrated master plans that dreams are made of have been delayed.

Paul Cheeseright

about 6,500 acres, in three of the four boroughs in the Black Country - Wolverhampton, Sandwell and Walsall. It has no land in the fourth borough,

Most of its operations are in Sandwell. The BCDC has estimated 1,500 acres are derelict but reclaimable. So far the BCDC has acquired about 800 acres and hopes to acquire another 300 to 400 acres. Assembling this land bas

been costly. The legacy of 200 years of industry is that much of land has been degraded or contaminated or has become unsuitable for development because of mining and so far 470 acres has been reclaimed. Although parts of the area are considered derelict, 35,000 people live and work in the

area and thousands more com-

trial properties and homes to acquire much of the land. Mr Ian Page, the marketing director of the BCDC, says: "All this takes tims and money. Few private developers are interested unless the land is properly assembled and cer-tain costs like access and recla-

mation are taken out. That is what the corporation's job is." The UDCs have considerable powers to enable them to do this job, powers that usually belong to the district councils. Apart from the power of com-

pulsory purchase they control planning within their areas. They also have vesting rights the right to acquire public land at current use cost. The BCDC has a notional budget over its 10-year life of £250m for land assembly and reclamation costs.

The development corporation has also undertaken several development projects. Oldbury town centre has been revived; a canalside village has been built at Tividale; numerous industrial developments in the Oldbury and Smethwick areas are progressing; and a new hotel and an office development on the edge of Wolverhampton town centre are under construction.

The BCDC says that on March 31, 1991, industrial floorspace built or under construction totalled 4m sq ft and 1,100 homes had been built or were being built. The corporation had spent £110m hy March. These schemes gensrated about 7,600 jobs and an investment of £350m from the private

Sir William Francis, chairman, stated the corporation's feelings in the annual report for the year to March 1991: "The Spine Road running between Junction 1 of the M5 and Junction 10 of the M6 is a fundamental requirement of the regeneration programming is noticeable that new development has mostly taken place on the periphery of the UDA where there is reasonable access to the motorways and higher quality roads; the heart of the area which contains most of the derelict but reus-

porations have a broad remit they do not have the funds or the authority to build barrages or main highways. Some critics maintain that this inability to hulld important roads and other infrastructural projects is a serious weakness in the

The spine road has been bedevilled by soaring costs. Originally, the cost was estimated at £50m. It may be that the BCDC got its arithmetic wrong when the road was first conceived. Or, as the nature of the land became more apparent costs began to mount. Or. perhaps the corporation miscalculated the amount of land, or the number of factories and homes which needed to be pur-Whatever the reasons, by

1990 when the road should have been started, the revised figure was £250m. The ministry of transport which would ultimately have to foot the hill balked at paying out this sum for a four-mile road. Mile for mile this would have made the road one of the most expensive in the country. After much haggling a com-

promise has been reached whereby half the road, a stretch of two miles, will be built at a cost of £93m, of which the BCDC will have to find £25m. It is due to be be completed by 1995, only two years before the corporation's writ theoretically expires

The recession has slowed down work even in the accessible areas. The problems of lack of access to large sites in the heart of the development area are best summed up by the failure to develop Sandwell 2000.
This was to have been a flag-ship development of an sq ft of shopping and related leisure activities, with an estimated cost of £350m in the late 1980s. It was planned for the middle of the development area, with access by the spine road. Very little has happened.

Meanwhile, the Merry Hill showing compine of the development area, with access by the spine road.

shopping complex of 18m sq ft has been built and is flourishing in nearby Dudley. This has Continued on next page



Manufacturing still abounds

The structure of industry examined by Stewart Dalby

Birmingham and see the way Its economy is changing by developing service industries and automatically assume the same thing is happening here in the Black Country. There has been some diversification into services industries in the Black Country, but nothing on the scale of Birmingham. After the recession you will see that manufacturing region based on traditional industries, although heavy industries like iron and steel have gone."

This is the view of Mr Jeremy Woolridge, the chairman of the Confederation of British Industries Black Country Area Gronp and chairman and managing director of B.E Wedge, one of the main hot dip galvanising companies in the area. A glance at some statistics for Sandwell, one of the four boroughs making up the Black Country, tends to reinforce his point. Of 3,228 companies regis-tered with the business unit of the borough's economic development office, 1,056 are involved in metal goods, engineering and vehicle industries. A further 467 companies are involved in other types of man-

ufacturing.
There have been moves into services auch as the distribu-tion, hotels and catering sec-tors. However, in the banking, finance, insurance, business services and leasing sector

"PEOPLE often look at there are 319 companies and have been layoffs in some com-230 of these employ fewer than 10 people.

The BCDC's area covers 10

square miles (25.9 sq km), or

Looked at in a different way in terms of people employed
 the figures for Wolverhamp ton, another of the Black Country horoughs, again makes the point of a dependence on tradi-tional manufacturing. including metal manufacture, metal goods, mechanical

engineering, instruments engi-neering vehicles and transport equipment, paper products, printing and other manufacturing 24 per cent of the workfacturing in the late 1980s before the recession struck. The structure has not changed much in the past two years, according to the borough coun-

If construction is included then 31 per cent of the work-force is involved in manufacturing, broadly defined. Just 2.3 per cent of those with jobs are in the electrical and electronics sector.

The principal private sector employers in Wolverhampton are: Goodyear Tyre and Rubber Co, with 4,500 on the payroll, Tarmac (2,500). British Tele-com, which has its regional administrative beadquarters and engineering division in the town. (1.570), and Lucas Aero-

These figures apply to the period of the late 1980s before the recession. Since then there

panies. At a time when just about

every economic development unit in the country has been charged to attract new so-called sumrise companies in the services and high-technology sectors, does the Black Country not wish to diversify its economy? Mr Norman Perry, the chief

executive of Wolverhampton

Borough Council, basically agrees with Mr Woolridge that the Black Country is unlikely to see great diversification into services and high technlogy. "We might see aome office development by being in Birmingham's slipstream. It is cheaper here for companies which already bave manufac-turing facilities to set up a bead office," he says. "There is little point at a time when Birmingham is trying to develop services in a big way for us to try and attract service compa-nies relocations." As for high-technology com

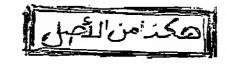
panies, Mr Perry says that there is a concordat between the West Midlands that the West Midlands Development Agency (Wmida) handles the investment. Most high-technology companies, particularly Japanese companies, would probably go to Telford where there are other Japanese con

Mr Woolridge also feels that there is little likelihood of the Black Country attracting com-puter companies. "The Black Country is not a good place for companies making video recorders to invest. It is not like Scotland or the Thames Valley. There are few compa-nies like that here already and there is no electronics culture.' He is sanguine, however,

about the dependence on man-ufacturing industry. Teople make two mistakes when talking about manufac-turing industry in the Black Country. First they confuse the heavy basic industries like iron and steel making with the metal processing industries. And second, they believe that because fewer people work in manufacturing the industries are disappearing. They ignore productivity gains. The basic industries have contracted but our other traditional indusour other traditional indus-

tries - motor componants, metal processing, galvanising - are going strong. "We here at B.E.Wedge are producing 19,000 tons of gal-vanised products a year, which is more than we have ever produced. We are doing it on fewer staff than three years ago. In motor components all kinds of new technology like computer-aided dssign is improving productivity. I think the area has a good future based on manufacturing."





BLACK COUNTRY 3

LABOUR AND TRAINING

Occupational changes

UNEMPLOYMENT has been rising inexorably across the Black Country, accelerating longer-term changes in the labour market and posing an increasingly daunting task for the four training and enterprise councils (TECs) recently established to foster training in line with the needs of business.

Service Sections

By the end of August, the rate of unemployment, which tends to understate the number of people ont of work, was 9.48 per cent in Dudley, 11.2 per cent in Walsall, 12.8 per cent in Sandwell and 13.8 per cent in Wolverhampton.

In each borough the percent-age of jobless was higher than the national average. In some wards - St Mathew's in Wal-sall and St Peter's in Wolverbampton, for example - the unemployment rate has been running at more than 20 per

cent.

The underlying reason for the blgb figure has been a quickening in the number of jobs lost from manufacturing and a shake-out in the fledgling service industries of the

When the local economy was recovering from the recession of the 1980s, there was no recovery in the number of manufacturing jobs; the rises in employment, rather, came from the services sector.

While this brought the balance between the proportion of manufacturing and services jobs closer to the national balance, it only partially reduced the dependence of the Black Country on manufacturing. Nationally, manufacturing accounts for 23 per cent of jobs. But within 15 minutes' travelling time from Wolverbampton, manufacturing accounts for 44 per cent of jobs, in Sandwell, one third of economic activity is manufacturing. The proportion is roughly the same in Dudley, but rises to 40 per

cent in Walsall. However, Dudley demon-strates the shift of jobs away from manufacturing. In 1978, before the 1980s recession shook the West Midlands manufacturing sector to its core, the proportion of manufacturing jobs in the borough was 45

This shift hides a furtber change in the labour market. The Black Country is not unique in this, but the proportion of women in jobs has risen as the services sector bas grown. Although about a third of the Sandwell workforce is female, the proportion rises to 48 per cent in Walsall. But many female workers, espe-cially in the services sector, are part-time - 42 per cent in

Wolverhampton, for example. One of the most dramatic switches in the labour market can be seen around the Merry Hill shopping centre in Dudley and its adjacent office complex. There was once a steelworks on the site. Now in place of foundries and blue-collar jobs, tbere are services and white-collar jobs. At the shopping centre tbere are 4,000 jobs. half of them part-time.

It is just such a change in occupation that the TECs are being forced to address. Given that the Black Country is oot exempt from the national demographic trend of a lower oumber of young people enter-ing the labour force, a minority whom in any case are interested in manufacturlog. employment growth will be increasingly dependent on the

willingness of women to work. This throws up cultural difficulties in the Black Country. Many jobs, especially in manu-facturing, have been deemed exclusively masculine preserves. Preconceptions exist on what job is appropriate tn

Cootinned from previous page

led the Sandwell Borougb

Council to question whether

another shopping centre of this

size is needed in the Black

country. It feels that better use

of the land could be made by

building perhaps B1 offices/

So there are now question

marks over wbether Sandwell

2000 will ever be built on the

grand scale once thought possi-ble.

Put another way, the delays

over the spine road bave meant that the targets of 15m

sq ft of industrial/commercial floorspace, 4,000 bomes, 30,000

jobs and £1,2bn of private investment for the lifetime of

the BCDC now look a tall

Certainly they seem una-

light industrial premises.

whom. Attitudes, according to Dudley TEC, may be "old-fash-iooed" and thus "the awareness of the demographic factor has vet to bite."

The Black Country is also idiosyncratic io its reliance on small companies, in Walsall, 85 per cent of companies and in Sandwell 90 per cent of companies employ fewer than 25 peo-ple. in Dudley 56 per cent of companies employ fewer than 10 people. But small companies are notoriously reluctant, frequently unable, to invest in training: the Walsall TEC found that less than half the companies with fewer than 10 employees were involved in any form of training.

Dudley TEC has noted that, during the 1980s, the area's base of skills was not enriched. There was a training sbake-out in the early 1980s and this was oot matched by increased training in the more prosper-ous years which followed. "The big problem not being addressed is the upgrading of employees already employed." problem not being

Skills shortages, across both the manufacturing and services sectors, emerged in 1986-87. They exist even now, but to a much lesser extent, in the depths of the 1990s recession. The Wolverhampton Borough Council is expecting slow expansion in its area to 1996, but it warns, "skill shortages

chievable by 1997 and beyond

the limits imposed by the £250m in public funds origi-

The wider questions are whether in the Black Country

as in other development areas,

the sums given for pump-prim-

ing are adequate and the lever-

age ratio of 4:1 of private to

public money are realistic if expensive infrastructure is not

accounted for at the beginning.

London Docklands has seen

£8bn worth of private invest-

ment for a public outlay of

£1bn over the past 10 years.

Now, the government is having

to spend a further £3bn on

improving access to Docklands.

Stewart Dalby

nally envisaged.

Plan hits roadblock

remain a constraint on economic growth".

Against the background then of both recession and a changing labour force, the TECs of Dudley, Sandwell, Walsall and Wolverhampton, each of them small in the national pantheon of 82 TECs, have to run to standstill. The corporate propensity in troubled times is to cut back on training, not to expand it. Still, in Walsall at least, the TEC belleves it is having some effect. "We are beginning to make an impact. particularly in getting employers to continue training and not to switch off - that is where the bulk of the effort is going," said Mr David Frost,

the vice-chairman. Like their peers, the Black Country TECs are charged by the UK government with the administration of youth and employment training. They undertake expected tasks: encouraging links between employers and schools, offering succour to small companies, helping to provide courses for those wishing to re-enter the labour force, taking part in the national Investors in People programme which offers awards to companies particularly active in training. But there bave also been two innovative schemes which may well have a wider application. The first of these came from Dudley where the TEC, following the medical profession, is

planning a system of locums for manufacturing companies. The idea is to provide locums to companies so that permanent employees can be released from their normal productioo work for training programmes. The locum service would be staffed by skilled redundant workers, the newly retired and those in the final part of their training who need work experi-

The second scheme came from Walsall and is designed to strengthen the existing employment base by helping companies which might need dvice. Called the Business Health Cbeck Service, any company in Walsall may have a free diagnosis aimed at identifying weaknesses and offering solutions. But the company in question would have to pay for continuing consultancy.



Derelict land: the legacy of 200 years of mining and industry in the area

Stewart Dalby discusses the problems of land reclamation

Underlying difficulties

MOST of the orban development corporations have had problems with land reclamation. The 11 urban development areas which the corporations are charged to regeoerate are sited in semi-derelict, rundown docklands or areas of former heavy and

dirty industry. Steel, chemicals, coal and shipbuildiog industries in Sheffield, on Teesside, around Manchester and in Newcastlenpon-Tyne have left contaminated and degraded land in their wake as factories, mines and shipyards closed down.

Arguably, the biggest problems in reclaiming land for new development has been faced by the Black Cnuntry

Development Corporation.
Its area was one of the cradles of the industrial revolution. The problems are not just of what has gone into the land, but what has gone on underneath it, says Mr John Nicolls, the development director of the Black Country Developmeot Corporatino.

"You are dealing with the legacy of almost 200 years of mining and industry. As part of our area is in a river basin there have also been problems of sewage sludges," Mr Nicolls Paul Cheeseright | says. "It is not called the Black Country for nothing." "It is not called the

The iodostry grew up because of the availability of raw materials in the area, notably coal and ironstone,

limestone and Etruria marl. Problems of reclamation start with disused coal mines and mine shafts. There is on longer any deep-level mining in the BCDC area but still

some open-cast mining.
Mr Norman Perry, the chief
executive of Wolverbamptnn
Borongb Cnuncil, says jnkingly: "Some of the land is like an Aero bar,"

This is an apt description although the land probably is hardly that riddled. Bot mine shafts bave to be identified, and often are found beneath filled-in land. Accordingly, the old miniog maps have been dusted off and the ground has been probed. Once the shafts are located they are gronted (filled) with liquid cement and capped with concrete, if the land is to be developed. In one well-known case, the problem of possible subsidence was resolved by open-cast mining. Running through the BCDC area is a thick coal seam known as the Staffordshire Thick Seam which in parts is

10 metres wide. On one potential site, Brit-ish Coal mined the coal in an open cast. It dug out the land

until the seam was reached and recovered 500,000 tons of coal over 100 acres. This involved going down around 59 metres. This land is to be the site of Sandwell 2000, a flagship shopping project. Limestone caverns can cause

greater problems than disused coal mines. Even if a cavern has been gronted with colliery waste and liquid cement, the roof often does not settle and snbsidence can take place. In one instance a "crown hole" appeared in the roof of a lime stone cavern. This was a hole in the ground which apparently was big enough to con-

tain a double-decker bus. Mr Nicolls emphasises that the area covered by the development corporation does not have problems with limestone to any significant degree.

The extraction of Etruria marl creates the problem of what has been put into the ground. Etruria marl is a clay used for making bricks. In the past great pits have been dug ont and they have been filled with waste products and sew-age and there have been problems with landfill gases such

One solution is to remove the contaminated land but this ls becoming increasingly becoming difficult to find. However, new techniques allow encapsulation of contaminated land by building harriers and this saves venting

of the landfill gases.

Becaose of government demands higher standards for treatment of land are now required and this means costs are rising.

This could involve the BCDC in greater expenditure. At the moment reclamation and decontaminatinn can cost np

to £100,000 an acre.
The BCDC does not reclaim all the land Itself. In the corporation'a last annual report it said that since 1987, when the corporation was set up, recla-mation has progressed on 470 acres of land. Where private developers bave nndertaken reclamation and decontamination the BCDC has been able to subsidise the work by giving the developers city grants.

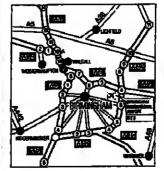
Mr Nicolis says there has not been any reclamation or development where the technical problems have been insu-perable or the cost prohibitive. While individual developments may not have been affected, the state of the land has clearly been responsible in part for delays in building the Spine Road.

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JUNCTION

PROPERTY DEVELOPMENTS LIMITED

Triplex lloye

Stourbridge is the traditional heart of the crystal industry

Glass roots go back 300 years

RICH deposits of fireclay started it. George Ravenscroft's discovery that, if lead oxide is added to a glass composition, the glass will be heavy, gave it a push. The Stourbridge crystal industry 300 years on still makes e significant contribution to the Black Country economy, one of those pockets of specialised activity which makes regional industry so

diverse.
Roughly, the UK produces about 9,000 tonnes of crystal a year. Probably around half comes from in and around Stourbridge. "It is the traditional heart of the crystel industry," noted Mr Tony Doyle at the British Gless Manufecturers'

Crystal is e luxury product, frequently bought as a gift rather than for own use, and one of those British crafted products which find their nicbe in export markets. But it is not immune to recession. The Department of Trade and

Industry's Business Monitor reported 1990 production of domestic and ornamental glassware - hand-gathered worth £59.9m, but ornamental the 1991 first quarter return at £10.4m was markedly lower than the £12.5m recorded in the 1990 first quarter. The Stourbridge part of the industry is broadly split three

there are the large independent producers such as Stuart Crystal and Royal Brierley Crystal. Second, there are producers such as Royal Doulton Crystal, which are part of larger groups - in this case, part of Pearson, which also owns the Financial Times.

Third, there are a host of medium and small producers, sometimes the result of individuals spinning off from larger groups, sometimes the result of training programmes carried out by the International Glass Centre, an annexe of Dudley College of

The structure of the industry is in constant flux. "While the numbers employed by larger companies has decreased, there's been a bit of a revival from people going to smaller companies or going independent," said Mr Doyle. "The market for our type of product has shown consistent growth. The number of manufacturers capelle of meeting this demend has reduced dramatically," commented Mr Roger Pauli, the managing director Stuart

The most notable recent factory closure was that of Edinhurgh Crystal, which, as Thomas Webb and Sons, was one of the most powerful 19th Century operators. Latterly, part of the Coloroll group, it closed when

its parent went bankrupt.
Mr Pauli believes that, although there is no need for future rationalisation, it will in fact take place, largely because of inadequate capitalisation. Although Mr Doyle

Wolverhampton, Dudley and Sandwell are candidates for city status to celebrate the 40th year of the Queen's reign

noted that "the larger people are not doing that well", Stuart Crystal's sales are running slightly higher than a year ago and the company's employment roll of 580 has remained

Smaller companies frequently appear to be caught in the classic recessionary bind which is of so much concern to the business organisations and, indeed, to the government: they

Department

Environment next month will launch the Black Country

Environmental Initiative. It is,

of course, part of the process

of trying to clean np an area which needs cleaning. But there is a serious commercial

element which, over the medium term, could have the find it difficult to get paid.

Mr Jeff Rowbottom, after working 16 years for Stuart Crystal, took voluntary redundancy and this year set up Roma Crystal, specialising in the production of customised

In the wholesale trade, he said, "I could do as much as I like, but people won't pay. You send out a 30-day invoice and you can forget about it for 12 months." Consequently, he confines his ectivities to production for which he is certain to be paid. "If I over-commit, I can put myself under." Stourbridge producers are under

continuous competitive pressure from imports, often mechanically-made crystal, but one of the main selling points of the local product is its handcrafting. This can be interpreted in different waya. "Many of the compenies have developed the practice of bnying blank glassware and decorating it. We turned our face against that," said Mr Pauli. Stuart Crystal, he went on, uses the full range of manufacturing methods in range of manufacturing methods to make its own glass.

There are two main objections to mechanically-made crystal. The first is commercial. The tredition of hand-crafting, handed down from father to son, is part of the marketing eppeal. It would be difficult to sustain with extensive mechanisation. The hand-crafted product has it own place in the market

The second objection is technical. "It is usual on the Continent, with 24 per cent leaded glass, to make that mechanically. But if you stick to 30 per cent and more, which is traditional British crystal, It is more difficult to work it mechanically, said Mr Doyle.

A further by-product of the hand-crafted approach is the development of tourism based on crystal. The larger glasshouses offer tours and Black Country glassmakers have a memorial in the form of the Broadfield House Glass Museum. Now there are plans for Himley Hall, a stately home once the seat of the Earls of Dudley but more recently in the ownership of the Dudley Borough Council

The proposal is to turn it into e Netional Glass Centre, by transferring to it the Broadfield House collection, enlarging the range of exhibits and

Paul Cheeseright

Business telephone guide

Compiled by Jayne Pearce

3-4 star hotels: Dudley: Werd Arms 0384-458070

Sandwell: West Bromwich Moat House 021-553-6111 Walsali: Baron'e Court 0543-452020; Felrlawns 0922-55122; Walsall: Baron e Court 0543-452020; Felriawns 03/22-03/122; Forte Post House 03/22-33/555; Frisndly Lodgs 09/22-724444 Wolverhamptoo: Connaught 09/02-24433; Goldthorne 09/02-29216; Mount 09/02-75/2055; Park Hall 09/02-33/121; Patshull Perk 09/02-7001/00; The Victorie Park 09/02-2002

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Local authorities:

Dudley Metropolitan Borough Council 0384-456000 Sandwell Metropolitan Borough Council 021-569-2200 Walsali Metropolitan Borough Council 0822-650000 Wolverhampton Metropolitan Borough Council 0902-27811

Business support organisations: Black Country Development Corporation 021-511-2000 Chambers of Commsrce: Dudley 0384-237653 Sandwell 021-553-2821

Walsall 0922-721777 Wolverhampton 0902-26726 Training and Enterprise Councile: Dudley 0384-485000 Walsalt 0922-32332

Wolverhampton 0902-311111 Confederation of British Industry West Midlands 021-454-7991 Englacering Employers' Wset Midlands Association

West Midlands Development Agency 021-717-0909

Government regional offices: Department of the Environment 021-628-2000 Department of Trade and Industry 021-212-5000

rensport

Birmingham International Airport 021-767-5511 British Rait (for Sandwell & Dudley, Walsall and Wolver-

hampton stations) 021-643-2711 Centro (for local public transport) 021-200-2700

ENVIRONMENT

Clean-up poses problems

effect of turning to profit what promises to be a painful mental controls without losing The background is the Envicompetitiveness. Earlier this ronmentel Protection Act year, Professor Colin Appleby which over the next five years, will tighten up, inter alia, the of the enterprise studies unit at Wolverhampton Polytechemission controls on indusnic, led industrialists to Gertrial plants. There are very serious implications here for many to examine the question. In continental Europe, and Germany, in particular, his report observed: "Legislation has been in force for a number anticipated in the UK."

practice is to use dry bag scrubbers, meeting tighter emission controls than exist in the UK. These scrubbers are cheaper in terms of capital and operating costs. But in Germany the foundries habitually use cleaner scrap than is the habit in the UK, where the material is often oily and hence gives rise to much of the

skills are precisely what is needed for the construction of environmental equipment. But there is not the design capabil-ity," Professor Appleby said. His way of coming to terms with that is to establish joint ventures with German companies. "There are very few potential suppliers. The German suppliers are falling over themselves with work."

The Black Country Environmental Initiative will accept this reasoning. A study for the City Action Team, examining the implications of the Environmental Protection Act. carried out by Ecotec Research and Consulting, suggested that there is the potential for this diversification of Black Country industry, but that the diversification would need close official support.
This will be the commercial

underpinning of an effort to co-ordinate the varied environmental work, carried out by local authorities, central goverument agencies and volun-tary bodies.

Paul Cheeseright

Motor component industry

Under pressure to change

AUTOMOTIVE component manufacturers in the Black Country, like their peers in the sector throughout Europe, are under pressure to change their commercial and working practices but they start on e different base from many of their competitors. The manner in which they respond will be crucial to the economic future

of the region.
The increasingly stringent quality, cost and timing demands of the vehicle mak-ers, coupled with the new market opportunities which came from the expansion of the British industry through the arrival of Japanese car assem-blers, as well as the strengthening of the European Commnnity's internal market, provide the backdrop for change. But the recession makes the

change more difficult. Some Black Country companies have been facing reductions of more than 30 per cent in the size of their order books. Where production has held up, margins have tended to narrow. It is as if the companies cannot break out of a trend line of problems. The recession of the early 1980s sharply reduced the size of the industry. Recovery in the mid- and late 1980s was accompanied by fierce competition on prices that held down margins and reduced the possibility of local corporate collaboration just the sort of collaboration which now, in fect, would be useful in meeting the

demands of the 1990s. Component makers account for about 20 per cent of all manufacturing jobs in the Black Country. What makes the sector individual is the high proportion of small and medium-sized companies, many family-owned, and the fact that they rarely produce complete component systems: the emphasis is on the manu-facture of single components or sub-systems.

Historically, there has been a

high dependence on the provi-sion of components directly to Rover, Ford, General Motors and Jaguar, in that order. But these assemblers, like their competitors, are reducing the number of suppliers with which they are prepared to do business directly. And they are looking for longer-term and more co-operative relationships with the manufacturers of component systems. Many Bleck Country component makers are thus likely to find in the 1990s that their primary business relationships will be, not with the assemblers, but with the component systems

tractors or sub-sub-contractors.
The West Midlands Enterprise Board and Wolverhamp ton Polytechnic recently produced a study of the Black Country components sector. partially based on a survey of a representative cross-section of 30 companies. This found that of the 30, only nine were automotive specialists and that most were metal based. Professor Colin Appleby, head of the enterprise studies unit at the

makers. They will be sub-con-

many producers tended to be large and specialist.

The implication seems to be that the Black Country industry may be due for further rationalisation. The critical decision for the non-specialist companies would be whether they should continue that way. "The market is likely to polar ise into specialists. General companies find it difficult to spend to bring themselves up to the quality required." Professor Appleby observed.

This, of course, is not to suggest that all the Black Country companies are weak and ineffective. Of the 30 companies in the survey 12 were private but 18 were the subsidiaries of larger groups. Indeed, leaders of the British components sec-tor, like GKN, have manufacturing units in the Black Country. In any case, the industry is becoming less localised as car assemblers cross national boundaries for the purchase of their components and as component makers spread out internationally. Thus, there has been in recent years, a movement of German groups into the Black Country - Eisenwork Bruhl and Lemforder, for example.

Later L

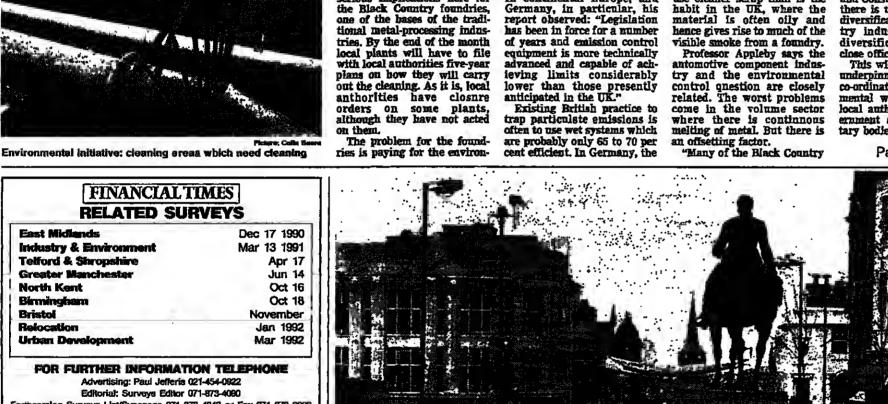
There is little doubt that growing internationalisation of the car industry, certainly up to the end of the first half of 1991, helped British car makers and component suppliers: declining figures would have been worse without exports. But it looks as if this phenomenon provided only limited relief to the Black Country. More than a third of the companies have no exports at all. and only shout s fifth have exports accounting for 30 per cent or more of turnover, according to the Enterprise Board and Polytechnic study.

For the next few months, the prospects are therefore discour-aging. Domestic new car sales remain at e low ebb and demand is elackening in the main continental European markets such as Germany. For the longer term, the picture is

The market for the component makers is widening not only because of the Japanese presence but also because of the investment programmes of the European assemblers. Whether the Black Country suppliers will be able to take advantage of this depends on many factors. These include higher levels of investment. the development of, or tapping into, a stronger design can ity, the strengthening of the local industry through more joint ventures and a stronger commitment to training of the existing workforce and of new

By European standards, the Black Country workforce is rel-atively cheap. But as soon as demand expands skill short ages appear they have done so before and nothing has hap pened to suggest that they will

Paul Cheeseright



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Wolverhampton to get nearly £40m in City Challenge scheme

Regeneration programme

WOLVERHAMPTON will receive nearly £40m of central government funding for the regeneration of two wards adjacent to the town centre. It has bid for, and won, e place in the UK government's City Challenge programme.

City Challenge represents the government's new approach to urban policy. It is approach to urban policy. It is based on the ability of local partnerships, including the local authority, to compete for a finite supply of funds. It is aimed at bringing all sections of a community into alliance for a concentrated attack on deprivation in a narrowly defined area.

The combined public private

The combined public-private sector presentation made by Wolverhampton for the two districts of St Peter's and Low Hill succeeded in convincing Mr Michael Heseltine, the environment secretary, that over a period of five years an eco-nomic and social revival could take place. It succeeded where,

for example, Birmingham failed in its bid. This competitive element in bidding for funds, overriding an approach based on the allotment of money to urban areas which need it, depending on how indices of deprivation are calculated, has attracted criticism from urban specialists and politicians. But in the Wolverhampton case it means an infusion of funds which other-

wise would not have happened. What it obtains is money siphoned away from another potential destination because the total amount of central government spending on inner urban areae is not being increased.

The Wolverhampton City Challenge ares is home for 22,000 people of whom 10,400 are ethnic minorities: Sikhs from the Punjab, Muslims from Pakistan and Afro-Caribbeans. It is an area heavy with council housing, much of it defective. Most local employment is in manufacturing, the largest employer being Goodyear. But the area is bisected by a dual carriageway, crossed by rail-way lines and divided again by a canal which from time to time causes flooding.

Unemployment is a consist-ent problem. In mid-year St Peter'e unemployment rate was running at 21.9 per cent. That of Low Hill was slightly less. Among the unemployed. 33 per cent in St Peter's and 37 per cent in Low Hill have been jobless for more than a year. In the first of these wards 58 per cent of tenants receive housing benefit, in the second 76 per

the Wolverhampton

scheme, over a period of years,

is euccessful, economic growth

will occur, helped by the geo-graphical position of the wards as the gateway to the town and

work. This will bave the effect of strengthening and enlarging the town centre, to the south of the City Challenge area. But the Wolverhampton proposals also stress training and educa-tion as a means of helping the St Peter's and Low Hill residents to take advantages of opportunities which may arise

in the wider regional economy. What the Wolverbamptopn presentation called "the vital catalyst for the area's and the city's regeneration" is the development of three sites: the rundown leisure facilities of the Wolverhampton Wanderers football stadium at Molineux, the Dunstall Park racecourse and a derelict gasworks site of

But the details of the plan go beyond property development and education and training to health care, crime reduction and prevention, housing, environmental revival and community development. Each of these seven prongs of activity has a list of the partners or groups who will bring about change, thus meeting the government demands that City Challenge proposals should be a combined effort.

The administrative structure for the running of the City Challenge programme likewise reflects an attempt to balance different interests in the com-munity. At the top of the struc-

ture there is a "partnership board" made up of five people from private sector business, four representatives from the Wolverhamptom Metropolitan Borough Council, four representatives from community groups and three representatives from other local bodies - Wolverhampton Polytechnic, the Health Authority and the Wolverhampton and Bilston Trades Council.

The executive staff will be confined to eight people, led by a director on a salary of £30,000 a year. This will be supported by another group made up of officials from central government, local anthorities and groups such as the police, the probation service and the local raining and enterprise coun-

The third tier of the structure is two advisory groups, made up of community representatives on one hand and business representatives on the

Work on the detailed application of the broad plan presented to Mr Heseltine is now taking place. But if present intentione are followed through, just over £7m will be spent in the first year of the programme, 1992-93, rising to £10.15m in the second year, before declining to £5.06m in the final and fifth year.

Paul Cheeseright





FINANCIAL TIMES COMPANIES & MARKETS

Monday October 28 1991



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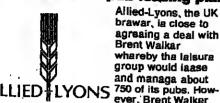
elephone guide

The state

Hoesch board member dismissed

The increasingly bitter takeover bid for Hoesch, tha German steal and angineering company, by its nalighbour Fried Krupp, has claimed a casualty with tha diamisaal of a laading mamber of tha Hoesch board. Page 21

Brent Walker in pub leasing plan



and managa about ALLIED LYONS 750 of its pubs. However, Brent Walker approval of its ahareholdera for its retinancing proposals. Page 20

Norwegian banks rescued Norway's state bank inaurence tund and the guarantea fund of the aavinga banks are providing two aavinga banks, Sparabanken Midt Norge and Sparebankan Rogaland, with a con-ditional NKr1.13bn rescue package. Page 21

No cause to celebrate



Staff at HTV, the Indapendant talavision contractor tor Walea and west England, faca a pay fraeza and radundancies following its auccessful £20.53m (\$35m) bld to retain its franchiaa. "We have absolutely got nothing out of it," and Mr Charles Romaina, chief exacutiva, Paga 20

Polly Peck injunctions

Administrators to Polly Pack International, the UK-based fruit to alectronics group, have been further frustrated in efforts to access assets of tha group's Cyprus companies following two injunctions taken out on the Island, Page 20

Borrowings head for a high

Tha volume of International borrowings could reach a historical high of \$500bn, says tha Organisation for Economic Co-oparation and

Market Statistics

Base lending rates Euromarket turnover FT-A World indices Managed fund service Money markets New Int bond issues NRI Tokyo bond index US manage product when US money market rates US bond prices/yields World stock mkt indices

Companies in this issue

Aetna Lite Allied-Lyons Brent Walker Conred Conli Fina Fried, Krupp HTV

Matra 20 Noranda Rosehaugh Develop Serif Cowells Shiseldo 21 Spareb'ken Rogaland 21

Sparebken Midi Norge 21

THE DISMISSAL of Mr Rod Canion, president and chief exec-utive of Compaq Computer, was not a knee-jerk reaction to bad quarterly results, according to the company's chairman, Mr Ben-

jamin Rosen.
The dismissal, lata on Thursday night, came two days after Compaq announced the first quarterly loss in its history, a \$135m restructuring charge, and plans to cut about 1,400 jobs, 12 per ceot of tts work-

Mr Canioo was one of Compaq's co-founders. He led the company from its birth nine years ago, helping it grow into the leading manufacturer of IBMcompatible personal computers with 1990 sales of \$3.6hn.

He has been replaced by Mr Eckbard Pfeiffer, who set up Compaq's subsidiaries in Europe. Mr Pfeiffer is credited with having built Compaq's international sales to almost \$2bo, from scratch, in just six years. In January, he joined the company's headquarters in Houston, Texas.

Compaq founder fired because board 'had to make a choice'

By Louise Kehoe in San Francisco

as chief operating officer. Until this year, Compaq had an unbroken record of sales and earnings growth, which it attri-buted to management consensus and continuity. Last week, bow-ever, it reported an 18 per cent decline in third quarter revenues and a net loss for the quarter of \$70m, including restructuring

Mr Rosen, Compaq's chairman, Mr Rosen, Compaq's chairman, is a venture capitalist who provided Compaq with its initial funding. He said Compaq's directors began their regularly scheduled meeting on Thursday with the task of re-defining top management responsibilities following the re-organisation of the

company into two business units - one focused on personal com-puters and the other on systems products.

There had been discussion over the previous few days of the creation of an "office of the presi-dent" to be shared by Mr Canion and Mr Pfeiffer, but Mr Canion did not favour the idea, according to Mr Rosen. Associates say the two men have very different

management styles.

Mr Rosen said that the board finally decided, after deliberating for 14 hours, that it was essential to have "a single leader, and so we had to make a choice". Mr Pfeiffer's achievements in Europe

sensitive semiconductor and consumer electronics markets gave him the edge, Mr Rosen said. He said Mr Pfeiffer was also chosen because the company

faced the "intense urgency of reducing costs and the increasing globalisation of the industry". Nevertheless, the choice was a clear rejection of Mr Canion and his consensus management style, which has been criticised for delaying decistons. In contrast, Mr Pfeiffer is described by associ-

ates as a "directive manager".
Critics argue that Compaq has not moved fast enough in reacting to changes in the personal computer market, which have undermined its profitability.

Share price

Pence

Mr Rosen said: "We were late in lowering prices." He added that Compaq should have responded sooner to price competition and that it was late in emphasising cost cuts. Mr Canion opposed lay-offs, while many of the company's competitors were

Mr Rosen claimed that, over the past two years, Compaq "spent an awful lot of money on developing systems products".
such as network servers, and fell 'a little bit behind on desktop

personal computers". Was Mr Canion to blame? "We all made mistakes, the chairman of Compaq made mistakes," said Mr Mike Swaveley, former prssident of Compaq's north American operations who retired in July, said: "Change was over-due at Compaq." Compaq's past success bad induced a "self-satisfied view of the world" that bred reluctance to adapt to changing circumstances.

However, he said the manner in which the management transition was handled at Compaq was "totally inappropriate, totally uncivilised and totally uncalled

Mr Canion had played a key role, he said, in establishing tha "Ace Initiative" — a group of leading companies that aims to establish standards for the next generation of personal compnt-

Mr Swaveley said: "I would be concerned that when the tima is right for the next industry initiativa, that Compaq will not be ready. You have to have credibil-ity in the industry to get competi-tors to agree to collaborate. It takes personal credibility and that takes time to establish."

Costain's share price has continued to fall amid fears over the UK recession

A difficult climb back up the ladder

the Share price of Costain, the UK construction, property and mining group, bas lost three quarters of its stock market value in little more than 200 days.

The fall has been prompted by concern over trading during one

concern over trading during one of the worst recessions in the UK residential and commercial property markets and by fears that the company may have to make substantial provisions to cover losses on the Channel tunnel construction contract.
Last Monday Costain's share
price fell 13 per cent to close at a

low of 55p for the year. By Friday night the share price had crept back to 66p compared with a peak value of 220p in March. Only 14 companies out of the 661 which comprise-the-FT All Share Index have endured a big-

ger fall in their share price since the beginning of the year.

Mr Peter Costain, the group's chief executive, says the decline takes no account of the progress the group is making in reducing its borrowings or the underlying value of its cash-producing construction and coal mining busi-

However, investors continue to worry about UK housebuilding and commercial property. Since 1988 group pre-tax profits have collapsed from £89.2m to \$5.5m (\$9.4m) last year.

Mr Khalid Nazir, coostruction analyst at stockbrokers UBS Phillips & Drew, forecasts that Costain this year will make a loss of £30m after further provisions which he says the group will have to make against its housing and commercial property operations.

The UBS forecast also includes a £10m provision to cover poten-tial losses on the Channel tunnel.

Andrew Taylor looks at the background to the UK group's problems

So far, Mr Costain has said there will be no provisions on the con-tract. Even so the group is unlikely to pay a final dividend when the results for the year to December are published next

By then, Costain hopes a recovery in the UK bousing market will have begun and it will be able to report further progress in reducing borrowings through disposals. These are likely to include the sale in the next few months of most, if not all, of the group's commercial property Negotiations are understood to

be taking place on several fronts. Sale of the County & District portfolio is expected to reap about £100m.

A further £50m of potential sales, including a gold mine and a waste disposal business in the US, have also been identified by

The group needs the money.

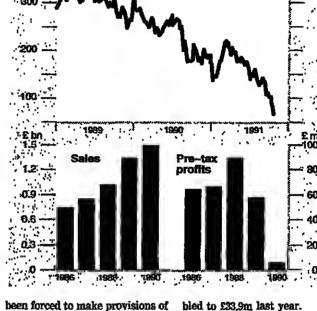
Net debt, currently £295m excluding £70m of off-balance sheet finance and £40m of redeemable preference shares, remains uncomfortably high.

It represents three quarters of shareholders' funds of £390m; and this is after a two-for-seven rights issue which raised £77m in the spring. Costain's problems arise from

its attempts to diversify by re-in-vesting the proceeds from its quality construction and engineering business into UK house-building and coal mining in the US and Australia. The investment in coal has

been dogged by bad luck. Problems with housebuilding have been compounded by unfortunate ement decisions made as the UK housing market peaked in 1988 before moving into a deep recession from which it has yet to emerge.
Costain's first error was to con-

tinue to buy land at top prices when other housebuilders had become concerned about the level of over-heating in the market. Subsequently, Costain has



£37m against its housing land. Further provisions are likely this

Tha group was also slow to introduce sales incentives when it became apparent that the market was moving into recession. In 1988 Costain sold almost 1,900 homes. In 1989 this had fallen to less than 700, a fall of

more than 60 per cent. Given the size of the group's borrowings, it would have been better to have pursued sales and cash flow at the expense of lower margins.

Borrowings rose steeply in 1989 when Costain bought the Pyro coal mining company in the US for \$193m. Overnight, gearing increased from a quarter to three quarters. Annual interest charges of £9.5m in 1988 more than trebled to £33.9m last year. The US recession, which has reduced demand for power, and an explosion at one of Pyro's mines in West Kentucky, which

hit production and increased overheads, has meant that profit growth has not been as great as it might have been. evertheless, the business has remained profitable and Costain says it will

benefit from improvements to management and operating procedures.
US coal prices, after a weak period in the first half of this

year, have also started to rise, it

Anstralia, which produces about 7m tonnes of coal annually, compared with 16m tonnes in the US, remains a good business.



The group's strategy is to concentrate on its "core businesses" of contracting and mining. Hous-ing land will be developed and the cash raised used to reduce deht. Commercial property will be sold off. It is unlikely that the group will be involved in speculative house building or commercial property development in five

Meanwhile, Costain faces a hard slog. It has done well to maintain its contracting order book but this sector will probably remain under pressure for the next 18 months as UK construc-tion output declines in the face of property market pressures.

Disposals have still to be achieved but the group hopes this year will finally mark the low point in its fortunes.

OCTOBER has been a pretty confusing month for Mr Nor man Lamont, Britain's chancellor, and the Treasury.

and manufacturing output fig-ures were disappointing, but business confidence, as measured by the Association of British Chambers of Commerce, has bounded ahead. While the chambers of com-

merce concluded last week that the economy was still in expects thet the third quarter gross domestic product figures will show a slight gain in national output compared with the second quarter when they are published on November 19. What these conflicting cur-

rents will mean for the Treasury's new economic forec due for publication with Mr Lamont's Autumn Statement oo public spending naxt month, remains to be seen. It is unlikely, however, that

away with eupboria.

The Treasury is telling itself economic recovery will take time to become apparent but that it will bappen. It draws comfort from the history of the recession and recovery at the beginning of the 1980s.

Government statisticians now say January 1981 marked the official turning point from falling to rising output. How-ever, the general belief then was that UK economic activity was still in steep decline. In March that year 364 econ-

omists wrote to Downing Street and the Treasury warning that "present policies will deepen the depression". In the summer of 1981, the London **Business School attracted** attention for taking an optimistic line and forecasting economic growth in 1982.

If a similar pattern holds true today, it is likely hindsight will show the economy tonched bottom in the early summer before "humoing along the bottom" for several months and eventually beginning a muted recovery.

There are two main arguments against any strong revival. The housing market has remained dull throughout

A month of mixed signals in the UK

stage a recovery before next spring. The pound's membership of the exchange rate mechanism of the European Monetary System makes it difficult, if not impossible, for British interest rates to fall below those of Germany. In effect, Britain faces the

sort of uninspired economic recovery experienced byits ERM partners before Germany began to boom at the end of the 1960s as a result, first, of large-scale immigration and, later, reunification.

the economy, Mr Lamont must be relieved that the govern-

that the industrial countries are no longer in the forefront of free trade.

In recent years some 45 developing nations have unilaterally opened their markets, while non-tariff barriers and other restrictions have prolifer-ated in richer countries. According to Mr Ernesto Hernandez-Cata, a senior IMF

economist, "a profound intellectual change" in favour of market-based economics has swept through countries such as Mexico and Chile and is getsome people who heard Mr Hernandez-Cata in Bangkok thought he was exaggerating.

Economics Notebook

By Peter Norman

ment is not in the middle of an election campaign. If current trends hold any consolation for the chancellor, it is that he has repeatedly asserted in recent months that recovery, when it comes, will be gradual.

Trade conversion

Since becoming chancellor 11 months ago, Mr Lamont has shown consistency in another area: as an advocate of freer trade and a speedy conclusion to the Uruguay Round of trade liberalisation talks.

His exhortations have appeared bold in the context of the European Community's often laggardly approach to the trade negotiations.

But it was clear at the annual meetings of the International Monetary Fund and World Bank earlier this month But at a meeting of bankers and government officials a few days later, Mr Angel Gurria,

Another enthusiastic advo-cate of free market economics is Mr Alejandro Foxley, the Chilean finance minister. He says that gaining better access to industrial country markets will be the key issue for devel-oping countries in the decade

Mexico's under-secretary for international finance, displayed all the zeal of a convert by urging a representative of the Indian government to "go as fast as you can" in cutting tariffs and fiscal reform.

"If all the existing barriers that prevent developing countries from selling their goods could be removed at a stroke. this would do more good to the developing countries than dou-bling the flow of aid," he said. the continent.

Off the rails

Liberalisation - be lt in trade or the financial sector -creates dislocations in the oddest placea. This is some-thing that the Belgian and Luxembourg railway networks are discovering.

Since Belgium embarked on a sweeping reform of its financial sector in 1989, there have been fewer well-healed Belgian citizens shuttling between Brussels and Luxembourg city on what used to be known as the "coupon-clippers' express".

This was the train that left Brussels a comfortable hour after breakfast arriving in Luxembourg for lunch. Early after-noon was the time to visit the bank and look after the investments. The return journsy starting just after tea time would bring the passengers back to Brussels in time for

But the fur-clad women and velvet-collared men with their slim attaché cases have been less evideot since February last year when Balgium reduced withholding tax on interest from bonds and most bank deposits from 25 per cent

Capital has been moving hack into Belgiom. Mr Alphonse Verplaetse, the gov-ernor of the Belgian National Bank, said residents repatriated some Bfr185hn (£3.1hn) last year while the inflow of capital from non-residents into lgium was about BFr120bn in the first half of this year. These figures help explain the recent strength of the Bel-

gian franc in the EMS. But the

Belgian experience should also

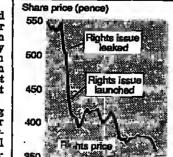
give the UK government some food for thought. Apart from tax-exempt spe cial saver accounts (TESSAs) and certain National Savings and friendly society products, the interest earned on savings in the UK is taxed as income. With EC monetary integration and completion of the Channel tunnel in prospect in the years ahead, the coupon clippers' express could experience a revival - between Britain and

BAe cash call hopes dwindle

By Clare Pearson

THE £432m (\$738.7m) rights issue for British Aerospace looks likely to flop when it closes at 3pm this afternoon after weekend speculation that 25 per cent or less of the offer would be taken up by share-

On Friday, BAe's shares closed 17p below the rights issue price of 380p. The two-for-five offer is lead managed by securities hooses Kleinwort Benson and Hoare Govett. It is



British Aerospace

fully underwritten, so BAe will get its cash. But a low take-up would leave unwanted stock

with the underwriters. would make it harder for companies to tap the equity market in the wake of the many rights issues of recent months.

A £280m issue for Hillsdown Holdings, the food, furniture and property group, achieved only 48 per cent take-up two weeks ago. Next month's gov-ernment sale of shares in British Telecom, expected to raise £5bn, will also squeeze institutional liquidity.

The BAe outcome is expected to be announced 24 hours after the close.



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COMPANIES AND FINANCE

Refinancing holds key to negotiations with Allied-Lyons

Brent Walker in pub leasing plan

By Clare Pearson

ALLIED-LYONS, the food and drinks group, is in the final stages of negotiation with Brent Walker on a deal whereby the leisure group would lease and manage some

750 of Allied's pubs.
An announcement on the plan may come this week. However, it will be dependent on Brent Walker gaining the approval of its shareholders for

its refinancing proposals.

For Allied, the deal would mark a sizeable move in the direction of cutting the size of its tied pub estate in order to comply with government orders on the number brewers may own. These must be met by November next year.

Allied last week announced plans to merge its brewing interests with those in the UK of Carlsberg, the Danish brewer, in a deal which would make the joint company the third largest player in the mar-

The 1989 government beer orders meant it had to release from the tie some 2,300 pubs.

national corporate transactions had a distinctly oriental fla-your, writes Brian Bollen.

Li Ka-Shing is expanding his interests in North America by

taking full control of Husky Oil. The purchase of a further 43 per cent stake, from debt-

laden Nova Corporation of Alberta, will lift his holding to

95 per cent. Mr Li Ka-Shing also agreed

TARGET

Kalovannia Brothers

Husky Oll (Canada)

Kanguros (Spain)

Inter Innovation (Sweden)

Corporacion Commarcial

American Auto-Matrix (US)

ISC Computerautomation

Unit of Peter Klewet (US)

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(Switzerland)

BIDDERANVESTOR

Aliled-Lyons (UK)/ Carlaberg (Denmark)

De La Rue (UK)

Grand Metropolitan (UK)

Li Ka Shing (Hong Kong)

Arjo Wiggins Appleton (UK/France)

Molynx Holdings (UK)

Molynx Holdings (UK)

Aker (Norway)

Alcatel Aisthom (France)

Hong Kong businessman Mr

So far it has sold about 700 and has leased others.

Brent Walker already has 1,122-strong estate to which it can add the new pubs. Con-Allied would continue to sup-ply them with beer and other drinks.

Brent Walker also owns a brewery in Hartlepool of which it plans to dispose, along with a portion of its pub estate.
Completion of Brent Walker's refinancing plans has been
long-delayed, the most recent
obstacle being the intervention

of a private shareholder, Count Alexei Orlov, who has raised the prospect of alternative pro-

However, if Brent Walker carries out its plans to post details of its own proposals to shareholders by the middle of next month, they will be put to the vote before Christmas. If Allied goes ahead with it, this will be the largest leasing deal struck in response to the government requirements by any of the big brewers.

to buy 49 per cent of a New York office block from interna-

tional property company Olym-pia & York, which described

the joint venture as an impor-

tant strategic alliance between two of the world's foremost

property development families.

The ongoing restructuring of Europe's insurance and insur-

ance services industry saw JIB

Gronp, this London-based insurance broker subsidiary of Jardine Matheson, take a 27

CROSS BORDER M&A DEALS

Spirits

Paper

Control

Products

Oll & gas

Auto casi

An eastern flavour to cross-border deals



Michael Jakaman, chairman of Allied-Lyons

Bass last month announced the outright sale of some 372 pubs to a new company, Enterprise Inns. However, the num-ber of bouses earmarked for disposal, and the depressed property market, have put obstacles in the way of this

per cent interest in SIACI, a French retail and wholesala brokar. This strategic move into Europe will help reduce

JIB's near-total dependence on

English-speaking markets.
The week also saw further

moves in the realignment of Europe's drinks industry. The £510m joint venture between

Allied-Lyons and Denmark's

Carlsberg marks another big step in the consolidation of

brewing in the UK, following

COMMENT

Furthar sector

Mora market consolidation

Agreed cash

Taking full

BHA backs

AAM licensee

Refocusing

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solution to the problem.
Under such leasing arrange ment, Brent Walker would ben efit through the differential between the rent it pays to the brewer and the rent paid to it by the tenant, together with other income.

the Monopolies and Mergers Commission deliberations on

UK food and drink retailer

Grand Metropolitan consoli-

dated its presence in Greece by buying the 70 per cent it did not already own in Kaloyannis Brothers, the country's leading

Daimler-Benz subsidiary

AEG agreed to sell its cable business to France's Alcatel

Alsthom as part of its strategy

of concentrating on core activi-

ties and restoring profitability. The purchase increases Alcatel

Cable's penetration of the Ger-

man market, where it bought

two other companies earlier

Aker, the Norwegian indus-

trial group, completed an

important stage in its North

American expansion strategy by buying SI per cent of Texas-based Gulf Marine Fabricators, makers of offshore oil and gas

De La Rue, the UK banknote

printer not so long ago a prime takeover target itself, contin-

ued its growth and launched a

£160.3m rights issue to belp

pay for the £94.7m purchase of Swedish competitor Inter Inno-

vation, saying the balance would be used for further

acquisitions.
Banco Hispano Americano is

backing the bid by Franco-Brit-

ish paper group Arjo Wiggins Appleton for Spanish paper merchant Corporacion Comer-

the industry.

ouzo producer.

this year.

platforms.

Rosehaugh sales chop £70m from borrowings

By Scheherazade

ROSEHAUGH Developments, the property company headed by Mr Godfrey Bradman, is to announce today about £90m of sales concluded since July 1. It estimates these will

reduce its borrowings by about £70m. In July, it said its interim on-balance sheet bor-rowings totalled £350m.

The company is hoping the announcement will clear the path to a merger with Stan-hope Properties. The two are joined by the common bond of Rosehaugh Stanhope Develop-ments and have been in talks for several months.

Rosehaugh will confirm the sale last Friday of its 40.3 per cent minority interest in Rose-haugh Greycoat Estate Hold-ings, with Ravensale, its partner, to British Land, headed by Mr John Ritblat. Rosethe sale will be in the regiou

Mr John Weston Smith, a irector of British Land, said the deal gave his company the opportunity to acquire control-ling interests in well-let investments. Rosehaugh Grey-coat Estate owns 1 Finsbury Avenue, the City headquarters of SG Warburg, and other properties on the edge of the Broadgate development in London's EC.

Rosehangh is also to announce the sale of a portfo-lio of commercial and residential properties to Ravensale, which also took place on Fri-

day. Ravensale, which is headed by Mr Ronnie Jarvis, is assuming an interest in the proper-ties and responsibility for some £23m of Rosehaugh borrowings. Once the properties are sold, Rosehaugh estimates it will derive a further £10m. Other sales described as "lots of bits and pieces" amounting to £20m since July, will also be confirmed.

Maxwell refinances £80m loan

By Bronwen Maddox

Robart Maxwell Estates, a private company controlled by publisher Mr Robert Maxwell, has completed the refinancing of a £80m syndlcated loan against the Holborn Circus beadquarters of Mirror Group Newspapers and West London properties.

The renewal of the loan.

which has been organised by Barclays Syndications and Lloyds Bank Capital Markets Group, is beliaved to have been dependent on clarifica-tion by Maxwell companies of their debt reduction plans and future structure.
Mr Maxwell announced in

July thet Maxwell Communication Corporation, one of his publicly-listed companies, would demerge lts North American interests to increase shareholder value.

Since the start of September public and private Maxwell companies have announced asset sales worth more than £250m.

HTV celebrates its win with pay freeze and redundancies

By Raymond Snoddy

THE STAFF at HTV . the independent television contractor for Wales and the West, are to face a pay freeze and further redundancies in the wake of their successful £20.53m bid to retain the franchise.

Unlike most other ITV companies there were no golden handcuffs and there will no special honuses paid as a result of winning the licence.

"We have absolutely got nothing out of it," said Mr Charles Romaine, the chief executive, who added that there would actually be a pay cut for non-executive directors. There had not even been a party so far for the team that saw off three rivals, although one is planned for the end of

January which will double up as a farewell for retiring execu-

They include Mr Patrick Dromgoole, the former managing director has resigned as director and as chairman of HTV International

The cost-cutting atmosphere was part of a stratagy to ensure that the return to shareholders remained attractive despite the size of the bid. In a circular to shareholders HTV set out the costs and benefits of the new system

In an illustrative calculation it worked out what the new regime would cost at 1990 prices compared with the teleoperating profit of before sxceptional

Under the new bidding system, including real reductions in net operating costs, HTV Television came up with an illustrative operating profit of

HTV will lose Channel 4 and Welsh Fourth Channel advertising revenua of £9.3m but would no longer have to pay a C4 subscription of £17.2m no Exchequer levy of £6.6m. In place of the levy, it had to pay 2 per cent of advertising revenue or £1.8m.

The company is counting on operational savings of \$11.7m.As a result, it clearly balleras in broken are the same of the same o believes in breakeven or better this year, followed by solid profits despite the £20.52m bid.

PPI administrators checked again

By John Murray Brown in Istanbul

ADMINISTRATORS to Polly Peck International, the fruit and electronics group, bave been further obstructed in their efforts to gain access to the assets of PPI's Cyprus companies following two injunc-tions taken out on the island. Mrs Safiye Nadir, mother of Mr Asil Nadir the PPI chair-

man, took legal action on Fri-day to prevent the sale or transfer to third parties of Unipac, the Famagusta packager, and Sunzest, the fruit exporter.

Mrs Nadir was one of nine persons named in a £1bn litigation last week by Mr Christopher Morris, one of the three UK court administrators.

In addition Industrial Bank of Cyprus, a bank owned and set up by Mr Nadir, is suing Pearl Construction, a PPI company on the island, and the Girne View Hotel, also owned by PPI, for TL16bn.

The administrators have been frustrated since last Octo-ber by a series of injunctions taken out by Mr Nadir's interests in Cyprus.

The administrators had ear lier argued they only wanted to get a full picture of the group's activities and did not envisage having to sell the assets.

The Cyprus companies are now thought to bold the answer to the whereabouts of money cited in last week's litigation in London against Mr Nadir, his mother, Mr Mentes Aziz his lawyer, and five oth

£3.6m loss at Serif **Cowells**

SERIF COWELLS, USM-quoted printing, publish-ing and leisure group, suffered a £2.18m turndown to record a loss of £1.13m in the first half of 1991. On top of that were extraordinary charges of £2.5m to give a total deficit of £3.64m. Turnover was balved to \$16.3m (£33.1m) reflecting the ending of the licences to distribute Trivial Pursuit and Nintendo. The loss was £855,000 (profit £1.05m) to

which was added £278,000 reorganisation costs. Losses per share were 4.6p (earnings 2.7p) and the interim dividend is omitted (1.5p).

Despite £3.7m raised by the sale and leaseback of the Ips-wich site, borrowings remained reduced asset base.

Usborne to refocus on pig production

Usborne, the pig producer and property developer, has made a £4.4m provision for losses on a Fulham development joint venture and discontinued businesses and said it has with nesses, and said it has with-drawn from property

The company was announcing interim pre-tax profits of £771,000 (£1.27m) on sales up 11 per cent at £90.63m.

The provision reduces the

capital by nearly a quarter. The interim dividend is cut from 0.5p to 0.1p. Earnings per share fell from 1.28p to 0.77p. Mr Derek Sawyer, the chair-

man, said the company would now concentrate on pig produc-tion, grain marketing and other agricultural services,

NEWS DIGEST

Conrad Continental loss cut to £380,000 Conrad Continental, which

operates a garment division and the Bobby Charlton leisure businesses, cut its loss from £469,000 to £380,000 in the first

Following the sale of the

fashion accessories busines the ongoing operations reduced their loss from £531,000 to £299,000 on turnover of £3.26m

Overall losses per share came to 1.43p (3.55p). The directors had hoped forbetter result following the rationalisation, but they did not foresaa the continuing length and depth of the reces

However the second half was, expected to show a bigger improvement, they said.

NORTHERN IRELAND

The FT proposes to publish this survey on

November 26 1991

It will be of particular interest to 54% of top chief executives in Europe who read the FT. If you wish to reach the FT's business readers by advertising in this survey contact.

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Data source: Chief Executives in Europe 1990

FT SURVEYS

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Interest Amount per U.S. \$10,000 Note due 29th April, 1992 U.S. \$292.29

Interest Amount per U.S. \$100,000 Note due 29th April, 1992 U.S. \$2,922.92

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The Kingdom of Belgium

US\$200.000.000 Floating rate notes due October 1994

in occordance with the provisions of the notes, notice is hereby given that for the Interest period from 28 October 1991 to 28 April 1992 the rate of interest on the notes will be 5.1/3% per

The interest payable on the relavant interest payment date, 28 April 1992 will be US\$6,830,73 per US\$250,000 note.

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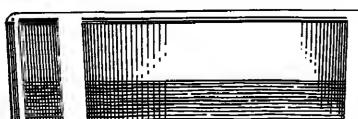
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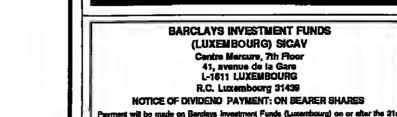
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For the period 25th October, 1991 to 25th November, 1991 the Bonds will carry an Interest Rate of 5.825% per annum with an Interest Amount of U.S. \$78.67 per U.S. \$50,000 (the original Principal Amount) Bond, payable on 25th November, 1991. The Principal Amount of the Bonds outstanding is expected to be 31.367986016% the original Principal Amount of the Bonds or U.S. \$15,683.99 per Bond until the Fifty Ninth Payment Date.

Series 1986-1

Bankers Trust Company, London

COMPANIES AND FINANCE

Hoesch bid fight hots up as board member is sacked

By Quentin Peet in Bonn

OC:08D3

Win With

cked again

RELAND

THE increasingly contested takeover of Hoesch, the German steel and engineering company, by its neighbour Fried Krupp, claimed a casualty this weekend, with the dismissal of a leading member of the Hoesch board.

An emergency meeting of the company's supervisory council in Dortmund on Saturday decided to relieve Mr Constantin von Dziembowski, the member responsible for "enter-prise development", of his responsibilities, "with immedi-

The supervisory board also expressed its "indignation" at the manner in which Krupp had behaved towards Hoesch,

By Bernard Simon in Toronto

NORANDA, the diversified

Canadian resources group, plunged to a C\$57m (US\$52m) loss in the third quarter, with sharp setbacks in both its for-

estry and minerals husinesses. Noranda is controlled by

Toronto's Bronfman family

and among Canada's 10 biggest companies. It blamed the rever-

sal on falling prices for most of

its products as well as a drop

sales volumes. The company,

which has long-term deht of C\$4.5bn, said that high interest rates, inflation and the strong

earnings tumble

FINA, the US affiliate of the

Belgian oil company Petrofina,

increased its net earnings by 81

per cent in the third quarter

compared with the second, but profits were still down on the

third quarter of 1990, writes

Earnings were US\$7.67m against \$26.4m in the period

last year. In the nine months

to September 30, earnings

Nine-month earnings per

share fell from \$6.88 to \$1.30,

and sales fell to \$2.48bn from

Fina said refining and chemicals were still suffering from

the poor economic climate.

slumped 81 per cent to \$20.2m.

Andrew Hill in Brussels.

in some cases sharp - in

in acquiring 24.9 per cent of the group shares without prior informed of his intentions of acquiring a possible majority No explanation was given for

the action against Mr von Dziembowski, but he is named in an article in the latest issue of Manager magazine as the board member appointed by Mr Kajo Neukirchen, the new compeny chairman, to conduct negotiations with possible

"co-operation partners".

The magazine reported that
Mr von Dziembowski and Mr Gerhard Cromme, chairman of Krupp, had egreed on potential important areas for collabora-

However, Mr Cromme had

Noranda plunges to C\$57m loss

Cenadian dollar hed com-pounded its problems.

of 1990 were C\$18m, or 1 cent a share. The latest loss is equal

to 39 cents s share. Revenues

The loss for the first nine

months was C\$24m, compared

with earnings of C\$133m last year. Revenues slipped by 11 per cent to C\$6.5bm, but sales — which exclude a C\$112m

gain from asset sales - were

The minerals division swung

from earnings of C\$51m to e

SHISEIDO, the Japanese

cosmetics company, announced

a donble-digit rise in sales for the first half to September, on

strong sales of anti-ageing cos-

metics for older women, writes Emiko Terazono in Tokyo. Unconsolidated sales for the

six months to September rose

11.3 per cent year-on-year to Y191.6bn (\$1.46bn), and pre-tax

profits rose 12.6 per cent to

Y16.7bn. After-tax profits, how-

ever, fell 5.5 per cent to Y8.1bn

on sdditional corporate tax

payments due to a change in

Sales of the company's "high

prestige" skincare products,

supporting "successful ageing"

of women over 40, pushed over-

the secounting period.

down by almost 13 per cent.

Fina nine-month Sales surge at Shiseido

fell by 12 per cent to C\$2bn.

Earnings in the third quarter

provisions dent Aetna Life profit

Property

acquiring a possible majority

The latest development coin-DESPITE making further cided with a statement by Mr sizeable provisions against Cromme, rejecting suggestions that as many as 10,000 workers could lose their jobs in the property-related investments, Aetna Life & Casualty, the lergest shareholder-owned merger of Krupp and Hoesch insurance group in the US, has operations - hut refusing to give any guarantee that no jobs would be lost. posted third-quarter net profits of \$115.3m. This compared with \$88.6m a year earlier. However, the

In an interview with Der Spiegel, the weekly news magazine, the Krupp boss repeated his intention to ecquire e majority shareholding ln Hoesch, and said that e merger of the two Ruhr steel giants could produce cost savings of

C\$5m loss. The reversal reflects lower prices for zinc, copper and gold, partially off-

set by continuing profits from nickel producer Falconbridge, in which Noranda has a 50 per

The slump in pulp and news-print markets drove Noranda

Forest's loss up to C\$20m from

ing divisions also reported

sharp declines in earnings, due

partly to lower natural gas and

aluminium prices respectively. But both remained profitable.

all cosmetics sales, which

account for 71 per cent of sales.

up 10 per cent to Y136.6bn. Sales of its high grade cosmet-ics line surged 90 per cent to

Y9bn, and its skin whitening

lotion rose 30 per cent to Y6bn. Toiletry goods sales rose 17.2

per cent to Y42.9bn on strong

shampoo sales. Overseas sales rose 15 per

cent to Y3.8hn. Shiseido

expects to double sales abroad

For the full year to March

1992, Shiseido expects pre-tax

profits to rise 6.2 per cent to

Y32bn on sales of Y383bn, up 8.7 per cent. After-tax profit is

projected to rise 3.3 per cent to Y15.5hn.

over the next decade.

cent stake.

Mr James Lynn, chairman, said "continued adverse conditions" in the commercial property market hit earnings by \$81m in the third quarter. That figure, he added, encom-passed further additions to mortgage loan reserves, real estate writedowns and lost myestment income

1990 figure had been badly

dented by a \$90m reorganisa-

tion charge, which was not repeated this time.

The damage, he said, was offset by the strong performance from Aetna's life and health insurance operations. The third-quarter 1991 profit is struck after net realised capital loss of \$41m, compared with e deficit of \$38m in the

same period a year earlier. That \$41m figure includes additions to reserves for mortgage loans and property write-downs of \$73m - a sharp increase on the \$34m incurred for similar reasons a year ago. However, the life and health division posted earnings np from \$72m - before the reor-ganisation charge - to \$82m, thanks partly to the absence of

losses from some recently sold health businesses. Financial services swung from earnings of \$6m to e loss of \$46m, due largely to the real estate provisions.

Commercial property-casu-alty made \$32m, against \$37m, while personal property-casu-alty turned in e loss of \$2m, against e gain of \$12m a year ago. Cetastrophe losses, mainly due to Hurricane Bob reached \$19m in the quarter,

against \$6m. Coastal Corporation, the Honston-hased diversified energy company, posted third-quarter net earnings of \$3.4m. or 3 cents a share against \$33m. or 31 cents. writes Rivka Nachoma in New York. Operating revenues were unchanged

Heavy costs and slow demand hurt Matra

By William Dawkins in Paris

PROFITS at Matra, the French space, telecommunications and transport group, fell steeply in the first half of the year, hit by heavy development costs and a slowdown in demand for telecommunications equipment.

Operating profits were more than halved to FFr317m (\$55m) from FFr719m in the first half of 1990, on turnover which rose slightly to FFr12.5hn, on a comparable group structure.

Group net profits fell more steeply, to FFr64m from FFr249m, partly reflecting the partial deconsolidation of Ufima, the loss-making car components company. Matra is planning to withdraw from Ufima, in which it has a 35 per cent stake. Flat, the Italian car maker, has the rest. The French group has therefore decided to account only for its share of Ufima's equity, rather than consolidating it fully.

This change also brings adjusted turnover down to FFr10.6bn.

Matra said it was difficult to make forecasts for the year, given tha continued difficult economic environment, though profits in the current half should exceed the first six months' earnings.

Matra's telecommunications activities made a loss, because they had to bear the costs of developing equipment for the future pan-European mobila digital phona network when markets for existing products

were deteriorating.
The car division's results were affected by the prepara-tion and gradual onset of pro-duction of the latest model of the Espace family van, made by Matra under the Renault hadge. The leunch of the Espace had been a commercial

Norway savings banks get NKr1.13bn rescue

NORWAY'S state-operated bank insurance fund and the savings hanks' guarantee fund hsve intervened to provide Sparebanken Midt Norge and Sparebanken Rogaland, two medium-sized savings houses, with a conditional NKrl.13bn (\$170m) rescue package.

The intervention comes a week after the Norwegian gova NKr11.5bn allocation to rescue the country's ailing banking system.

For the two savings banks, the state is to provide s NKr320m interest-bearing loan to the guarantee fund of the savings institutions, which will make up the balance of the rescue package hy purchasing pri-mary capital certificates. These are securities developed two years ago by the savings banks to raise fresh capital.

Sparebanken Rogaland said yesterday that, during the third quarter, it had slid into a loss of NKr283m. It forecast a loss of NKr550m for the year. Finland's three top banks have had their credit ratings lowered by IBCA, the European reting agency, writes Scheherazade Daneshkhu.

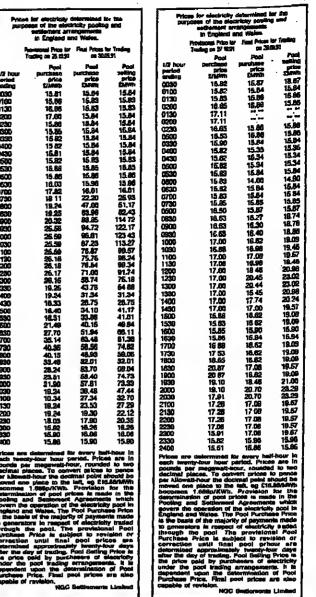
Union Bank of Finland and Kansallis-Osake-Pankki both had their long-term rating lowered from AA- to A+.

Postipankki's long-term rates were cut from AA- to A+ for unsecured debt and from triple-A to AA+ for guaranteed deht. Short-term ratings for all three were cut from A1+ to A1

Moody's, the US agency, has placed Finland's AaI long-term currency deht rating under review. The issuers involved are Republic of Finland, Finn-ish Export Credit and Municipality Finance. The Aal long-term debt and deposit ratings of Postipankki are also under review.

 Sweden's recently formed Sparbankensgruppen, the consortium of the country's 10 regional savings hanks, suffered a 31 per cent drop in its profits to SKr1.2bn (\$195m) for the first eight months of the year due to increasing credit ses of nearly SKr2.4bn, Robert Taylor writes in Stock-

The savings bank forecast profits for 1991 of about SKr2bn, an 18 per cent fall on



Bank of Tokyo (Curação) Holding N.V. US \$30,000,000 GUARANTEEO FLOATING RATE NOTES OUE 1993 Payment of the principal of, and interest on, the Notes is unconditionally and irrevocably guaranteed by The Bank of Tokyo, Ltd. In accordance with the provisions of the Agency Agreement between Bonk of Tokyo (Curagoo) Holding N.V., The Bonk of Tokyo Ltd., and Citbank, N.A., dated October 16, 1978, notice is hereby given that the Rote of Interest has been forced at 5487%, p.a. and that the interest polytic is the relevant Interest Payment Date, April 28, 1992 against the content of the Payment Content of the Payment Date, April 28, 1992 against the content of the Payment Date of the Payment Date, April 28, 1992 against the content of the Payment Date of the Payment Date of the Payment Date, April 28, 1992 against the Payment Date of the P **CITIBANCO**





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Arab International Bank

الصرف العرب الدوك

BALANCE SHEET AS AT 30.6.1991

<u>ASSETS</u>	30/6/1991 US\$ 000	30/6/1990 US\$ 000	LIABILITIES AND SHAREHOLDERS' EQUITY	30/6/1991 US\$ 000	30/6/1990 US\$ 000
CASH AND DUE FROM BANKS					
Cash and due from Banks	20 035	39 024	Customers Deposits	1 651 399	1 456 710
Time Deposits	1 376 966	1 131 721	Banks Deposits	492 330	456 245
Negotiable Certificates of			Accounts Payable and Accrued		_0
Deposit	300 000	280 000	Interest	78 636	76 779
INVESTMENTS		•	Proposed Dividends	<u>6 600</u>	6 600
Marketable Notes and Bonds	52 727	46 192	Total Liabilities	2 228 965	1 996 334
Participations Less Provisions	98 994	101 994	SHAREHOLDERS' EQUITY		
Loans and Advances Less	30 30 .	101 001	Authorized and Paid Up Capital	<u>165 000</u>	<u>165 000</u>
Provisions	537 229	553 924			
Accounts Receivable and			Paid Up Capital	165 000	165 000
Accrued Interest	36 105	36 208	Statutory Reserve	38 396	37 020
Fixed Assets After Depreciation	60 334	58 073	General Reserve	48 604	47 480
			Retained Earnings	1 425	1 302
			Total Shareholders Equity	253 425	250 802
Total Assets	2 482 390	2 247 136	Total Liabilities and Shareholders		
Total Assets	<u> 2 402 330</u>		Equity	<u>2 482 390</u>	<u>2 247 136</u>
Contra Accounts and			Contra Accounts and	410 177	353 455
Commitment	410 177	353 455	Commitment	410 177	333 433

Mr. Abdullatif A. El Kib Managing Director

Auditor's Report

Dr. Mostafa Khalil

We have examined the accompanying balance sheets of Arab International Bank at June 30, 1991 and June 30, 1990 and the related statements of income and retained earnings and changes in financial position for the years then ended.

Our examinations were made in accordance with generally accepted auditing standards and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of Arab International Bank at June 30, 1991 and June 30, 1990, and the results of operations and changes in financial position for the years then ended, in conformity with the accounting policies set out in Note 2 applied on a consistent basis during the period. **ERNST & YOUNG**

Athens, August 15, 1991

Head Office: 35 Abdel Khalek Sarwat Street, Cairo

Alexandria Branch: 2 El Horreya Avenue, Alexandria

Port Said Branch: 57 El Gomohorya Street, Port Said El Tahrir Branch: 1113 Comiche E1 Nil Street, Cairo

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Chairman

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Tory lag in polls may shake prices | Talk of tax cuts flusters traders

THE gilt-edged market looks set for a bumpy ride as political, economic and funding worries return to the foreground of investor attention.

The gilts market has witnessed two strong rallies so far this year, in the period to the middle of February and then from the beginning of July to late September, mainly on the back of the government's good showing in opinion polls, and hopes of falling inflation and

However, the third-quarter rally appears to have run out of steam, and the main reason s political

interest-rate cuts.

The most recent opinion polls show the Labour party enjoying a lead over the Conservatives, helped by rows about the National Health Service. In yesterdsy's Sunday Times/Mori opinion poll, sup-port for Labour, at 45 per cent, was six points ahead of tha

This is the fourth consecu-

FRENCH BONDS

ment unsettles the market. 1991, foreign investors bought **UK gilts yields** because of uncertainty about public spending plans. Restated at par (%)

Also, there are three by-elections on November 7 - in Langbaurgh (Cleveland), Kincardine and Deeside (sonth of Aberdeen), and Hemsworth (West Yorkshire). The first two are Conservative marginal seats and the last a Labour stronghold - and the Conservatives are expected to lose all

three. With the general election being put back until 1992, pressure on the government to cut base rates to win votes has diminished. And any remaining hopes of an imminent cut were dashed last week by reports thet Mr John Maples at the Treasury had ruled out fur-ther cuts for the time being. As the prospects for gilts in the short-term do not appear particularly favourable, investors may choose to take their profits and run.

in the first eight months of

Sara Webb

a net £3.5bn of gilts, represent-

ing more than 70 per cent of

net issuance. Many expect for-eign support to continue,

despite some reports of foreign-

ers selling gilts. Gilt yields are

still quite attractive compared

with those available in other

tional economist at S.G. War-

burg Securities, writes that

"the current spread of about 175 basis points over bunds [on

comparable yield basisl is

clearly incorporating some political risk premium, though

some pricing for increased gilt

yields - already over 10 per cent in annual terms - again offer value in their own right

and against bunds. The major

question is how much further risk adjustment may occur in

the run-up to the election."

But we helieve that current

issuance is evident too.

Mr George Magnus, interna-

government bond markets.

Economic sense attracts foreign buyers

IMAGINE THIS: a currency is pinned at the bottom of the European exchange rate mechanism, a Socialist government faces a general strike and a vote of no confidence over economic policy. Unemployment at 9.5 per cent and rising, leading to pressure for an expan-

sionary fiscal policy.
This may sound like the post-election nightmare of UK bond market participants, hut it is not. It is a precis of the situation facing French hond market investors last week.

Yet the value of French government bonds has not plunged. Last week 10-year bond yields rose from 8.73 per cent to 8.84 per cent, but this was in line with other Euro-pean markets, all of which were dragged down by mounting gloom in the US Treasury bond market.

International investors seem enthusiastic buyers of French franc-denominated securities. This month has seen a flurry of franc Eurobond issues. But French investors are more negative. For example, a recent FFr1bn zero-conpon issue for SNCF, the French state railway operator, was sold mostly to Swiss investors.

Foreign investors may be more positive than their French counterparts because they are removed from the effects of disrupted public services or political back-biting.

Oct 25, 1991

10 years 20

tive poll to give Labour a lead

in the absence of important

economic data, the steady flow

of opinion polls is likely to

have a marked impact on the UK government bond market,

with the poor showing of the

Tories depressing prices. The thought of a Labour govern-

Oct 18, 1991

The economic fundamentals suggest that French bonds are a good investment. Slow economic growth and increasing unemployment have generated intense pressure for lower interest rates. Government spending may rise, but from a very low base.

Demands for higher spending have so far been resisted by Mr Pierre Beregovoy, finance minister. The govern-ment admits that the budget deficit for this year will exceed the FFr80hn (\$14bn) target, probably reaching FFr100hn hy

But this does not worry most analysts. If France can stick to next year's FFr89bn target, it will have the lowest ratio of budget deficit to gross national product of any EC country. Inflation is running at year-on-year rate of 3 per cent,

the lowest in Europe. German inflation is at 4.1 per cent. This is the first time France has enjoyed lower inflation than Germany since 1972.

has been lodged at the bottom of the ERM for most of this year, there has been no crisis of confidence, no emergency intervention. Two weeks ago the Bank of France even managed to engineer a 0.25 per cent cut in its key intervention rate without precipitating a run on

Hence on economic fundamentals, French bond yields should fall below those of Ger-many, which has higher inflation, rising interest rates and a higher level of government

the franc.

borrowing.

The yield spread between the two markets appeared to be on an inexorable downward trend,

October 1990 to 40 basis points by late summer. However, the spread has since widened and 10-year French bonds were yielding 50 basis points more than bunds at the end of last

The remaining yield spread reflects the risk that a future French government might sanction a devaluation of the franc within the KRM in pursuit of economic growth. This residual danger is unlikely to recede. The last kilometre towards full bond market convergence with Germany is likely to be the hardest.

Simon London

	PERFORMANCE INDEX							
December 1983 - 100	24/10/91	Average yield (%)	Last	12 wts	26 wks			
Overall	164.48	613	163.99	157.84	154.00			
Government Bonds Municipal Bonds Govt, -quaranteed Bonds	162.73 166.71 169.15	5.97 6,33 6,38	162.42 166.29 168.72	155.59 159.83 162.47	151.69 155.79 158.62			
Bank Debentures	160,68 166,85 171,95	6.03 6.80 7.14	160.20 164.70 171.61	154.81 160.53 166.03	158.62 151.10 157.07 161.49			
Government, 10-years	5.97		5.96	6.51	6.65			

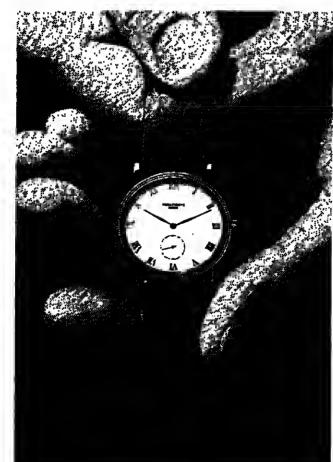
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US MONEY AND CREDIT

THE US Treasury bond market last week staged one of its typical knee-jerk reactions to talk by politicians in Washington of possible tax cuts that would be aimed at stimulating the flagging US economy.

The market engaged in a substantial sell-off early in the week, in spite of the fact that an agreed tax cut is unlikely to be enacted soon.
But that was followed hy a

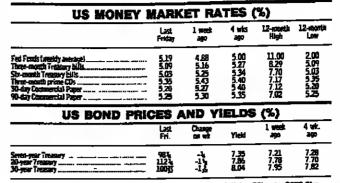
minor rally last Thursday as more statistical evidence pointed again to the faltering trend in the US aconomic

recovery.
The market's over-reaction to talk of tax cuts began on Monday, after a weekend television appearance by Senator Lloyd Bentsen, chairman of the Senate finance committee, in which the Senator proposed \$72hn of tax cuts during the next five years.

As traders began to sell, the 30-year benchmark US Treasury bond closed on Monday \$1% down to \$100 ll. Its yield -8.07 per cent - thus stood above the 8 per cent mark for tha second week running. The sell-off continued on

Tuesday as the White House tried to counteract the Democratic tax cut proposal by picking up Washington's slogan of the week - tax hreaks for the middle class. As far as traders were concerned, it did not matter that the Bush administra-tion again tried to push its proposal for a cut in capital gains axes, an old saw that has been on the table since President Bush took office in January

Bond market fears that fiscal



policy had re-entered the arena of choices facing US economic policy makers - and could put a hold on further interest-rate were heightened when the latest opinion polls showed that many Americans were unhappy with President George Bush's handling of the domestic aconomy. For the first time, less than 50 per cent of voters polled said they would vote for President Bush against a Democratic opponent

next year. It was only on Thursday that the market's irrational and immediate acceptance of Washington rhetoric on tax cuts was replaced by a rally based on fresh signs that the economy was so weak it would require more of a monetary than fiscal policy stimulus in the near

The Commerce Department said orders for durable goods, a key component of the index of leading economic indicators, declined by 3.2 per cent in Sep-

The Labor Department meanwhile released weekly unemployment figures that were higher than expected.

Traders marked the benchmark 30-year Treasury hond higher on Thursday, but it fell again on Friday and closed the week at a price of 100%, yield-ing 8.04 per cent, or nine basis points above the 7.95 per cent vield of a week before This week's economic statis-

tics are likely to provide fur-ther evidence of the US economy's weakness, with analysts predicting an increase of just 25,000 in the number of people employed for the month of October; the figures are due on Friday.

The Federal Reserve's Beige Book, which was prepared for next week's meeting of the Fed's Open Markets Committee, says the US economy is weak or growing slowly". But the Fed is continuing its cau-tious approach to further interest-rate cnts, which led analysts at the Bank of Tokyo to comment on Friday that "as

Rome burns, the Fed fiddles". Tomorrow sees the release of preliminary third-quarter figures for gross national product. which are likely to be well below the informal forecasts of a 3 per cent rise that have come from officials of the Bush administration. The present market consensus is for a third-quarter rise of as little as 1.7 per cent and as much as 2.2 per cent, helped by a hrief spurt in consumer spending in

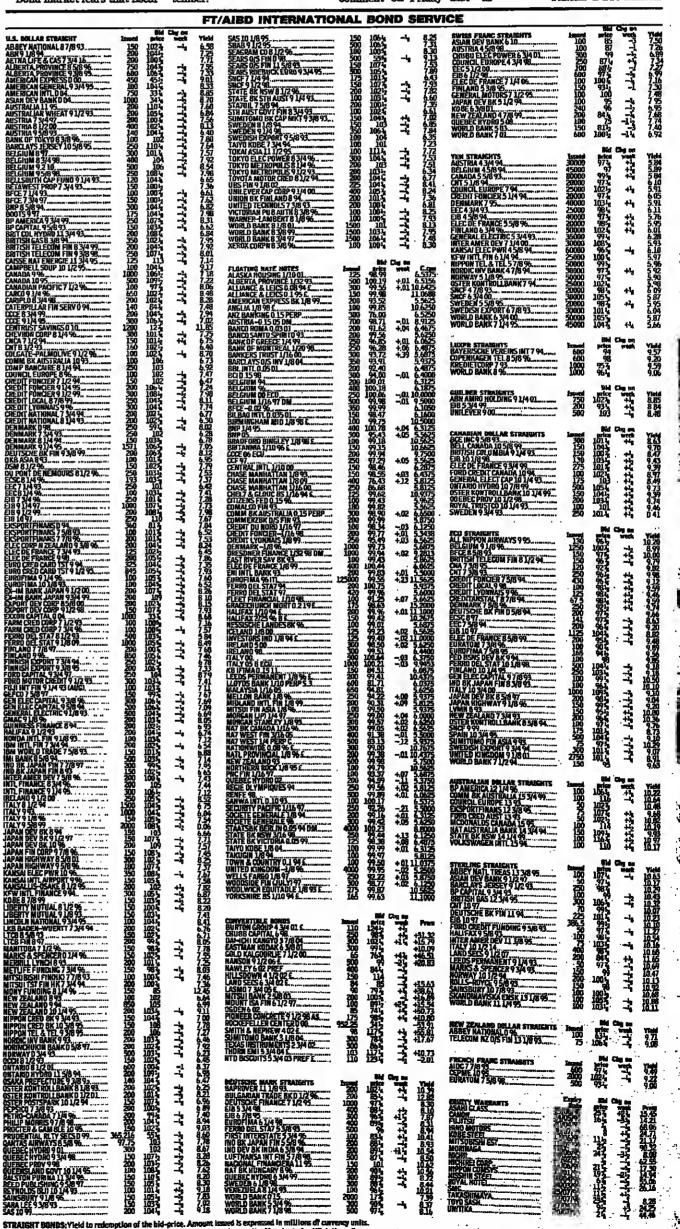
Bond traders will also be digesting September statistics on personal income and consymption, and new home sales, due on Wednesday - these are expected to show a small rise for the former and a drop of as much as 3 per cent for the lat-

On Thursday factory orders for September are published. They are likely to be down by more than 1 per cent. And on Friday the index of leading indicators is forecast by economists to show a small decline. The October national purchasing managers' index is meanwhile expected to he flat

On the regulatory front, the market seemed unmoved last Friday hy modified govern-ment regulations coming in the wake of the treasury bond auction scandal at Salomon

The regulations will allow any registered securities bro-ker-dealer to bid on behalf of customers at auctions instead of acting merely through primary dealers.

Alan Friedman



INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

OCTOBER 5

Kuwait seeks to join top borrowers' club

KUWAIT, which made its loans of more than one year in debut in the international capital markets this month with a \$5bn syndicated loan, is lobbying the Basla committee of bank supervisors for admissioo to the top club of country borrowers to increase its attractiveness to international lend-

Knwait carries the full risk weighting under the Basle guidelines on international bank capital adequacy, but would like to be upgraded to have a zero risk weighting.

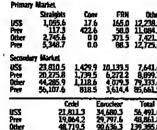
Basle committee sources

have indicated that changes to guidelines on risk weighting for capital adequacy purposes may be introduced to establish a more objective ayetem of classifying country borrowers. At present, the top category of country borrowers consists of the full members of the Organisation for Economic Co-operation and Development (OECD) and those countries which have arrangements with the International Monetary Fund through the general agreement to borrow (GAB). Saudi Arabia, which is not an OECD member, was allowed to join the top category because of its record in providing funds

However, the decision to admit Saudi Arabia to the top club of country borrowers was seen as unfair by other Middle Eastern countries such as Bahrain and Kuwait, especially as the latter has assets estimated

to be worth some \$70bn. In addition, some of the less wealthy countries are annoyed by the guidelines, pointing ont that these discourage international banks from agreeing to

Man Fride.



maturity to less developed

The Bank of Algeria points out in a recent memorandum that the tougher capital ade-quacy requirements imposed by the Cooke ratios of the Bank for International Settle-ments have had some impact on the behaviour of international banks", leading to changes in "the attitude and atrategy of banks vis-a-vis developing countries" and "diminishing the possibilities of access of those countries to the international market for

capital".

The memorandum goes on to say: "According to the Cooke methodology, assets and offbalance-sbeet elements are weighted as a function of their assumed degree of credit risk. The question arises of the choice of weighting coefficients. Indeed, it is noted that the weighting coefficient applied to a particular loan or risk, where this concerns a sovereign risk or its equivalent, is not a function of the intrinsic credit or the debtor, but wbether or not it is a memher of a specific institution, namely the OECD. For non-OECD members, the weighting applied is the same for all with no other measure of the actual

situation of each country."
When Saudi Arahia horrowed \$4.5bn this year, the loan was zero risk weighted. But when Kuwait launched its \$5bn syndicated loan this month to help cover the cost of reconstruction, some banks cited the fact that it had a full risk weighting as a reason for

unwilling to bend the rules for Knwait alone, But it is free to review the situation at any time and may consider doing away with its arbitrary clob arrangement, replacing it with a more objec-tive system.

Sara Webb

INTERNATIONAL BONDS

Volume of borrowings up 14% for first eight months

1989

THE LATEST Organisation for Economic Co-operation and Development report oo financial market trends highlights the recovery of the international capital markets, with new financings so far this year totalling \$320bn.

The volume of international borrowings - including international bonds and shares, Eurocommercial paper, medium-term note programmes, and committed and uncommitted facilities - arranged in the first eight months of this year shows a 14 per cent rise oo the same period in 1990. The report points out that this rate of growth is close to the average experienced in the second half of tha 1980s and, if sustained, would bring the annual bor-

rowing total to a historical high of \$500bn. However, the latest statistics also point to a shift in sources of borrowing. The overall surge is due to the record volume of new offerings in the interna-tional securities markets. However, the volume of new commercial paper programmes and similar msdium-term horrowing facilities has fallen below that recorded in recent years. and the syndicated credits market has "continued at a very siuggish pace", the report The OECD expects overall volume to be sustained during the final quarter of the year, and also snggests that the dichotomy between the strong performance of the securities markets and the depressed state of the syndicated loans market will continue, unless an improving financial environment encourages banks to resume lending to second-tier borrowers - which the report

From January to August,

borrowing on external bond

markets was up 30 per cent on the same period last year. The

market in floating-rate notes

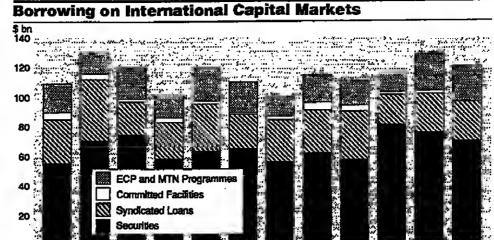
(\$12bn) remained becalmed but the volume of both straight bonds (\$148bn) and equity-related securities (\$34bn) surged. Among currency sectors, the growth of the Ecn market, now the secood largest sector, has

Other smaller sectors, such as the Canadian dollar and the peseta, have also experienced growing interest from borrowers and investors. The "smaller" markets now make up 35 per cent of the market, while the historically domi-nant dollar sector accounts for

deems "not very likely".

been the most dramatic, with volume so far this year already some 40 per cent higher than

\$100bn, which would be the lowest figure since 1987. The volume of newly estab-



Among the factors which adversely affected the syndi-cated loans market were poor economic conditions, the contraction in merger and acquisi-tion transactions, and the cantious approach to lending adopted hy many banks. The volume of newly signed loans was down 16 per cent at \$63bn.
The report estimates that volume for the year will be about

lished Euro-commercial paper programmes has also declined sharply, but the number of mediom-term Euro-note programmes has surged to \$27bn, compared with last year's total of \$16bn, reflecting investors' growing demand for high-qual-ity and liquid paper, according to the report.

Borrowers in the international capital markets continue to come mainly from OECD countries. Japanese borrowers are still the largest group, with

offerings totalling \$22.4bn, the highest recorded, while US corporate borrowing slipped to 10 per cent in the late 1980s. But the most important change is the "markedly heav-ier recourse to the market by developing countries", the report notes. Such borrowing is still confined to a small number of countries, and repre-sents less than 7 per cent of international financing. Never-

theless. LDC fund-raising has

largest borrower in the international capital markets by Staatsbank, which raised a total of \$17bn equivalent. The strong performance of the international securities

risen by more than a third since 1990, mainly due to the return of Latin American coun-

According to Euromoney

data, the World Bank has been

toppled from its position as the

tries to the market.

markets is good news for financial institutions, particularly after a lean year in 1990, when few firms found the securities business profitable.

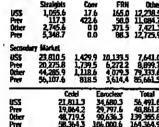
Some credit is given to the fixed price re-offer method of syndication, which helped secure a cartain margin of

 Ststni Banka Ceskoslovenska, the Czechoslovakian Central Bank, is planning to launch a \$200m three-year Eurobond, via Nomura International. The borrower has not tapped the capital markets since before the Second World War, but funds have been raised by another Czechoslovakian issuer, Ceskoslovensko Obchodni Banka.

Nomura will also arrange a deal for Statni Banki in the Japanese Shibosai market.

Tracy Corrigan

	EUROMARKET
	TURNOVER (\$m)
rimary	Martel,

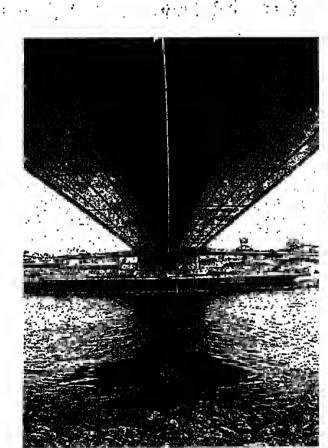


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In fact the loan was oversub-
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sk weighting, which would
ertainly please the participat-
g banks. The Rasia committee seems
The Rasie Committee seems

Borrowers	Amount m.	Maturity	Av. lite years	Coupon	Price	Book runner	Offer yield %	Borrowers	Ant
US DOLLARS								JFM(c)†	
Hosiden Corp(e)#† Dong-A(b)§†	100 23	1996 2006	14.833	41 ₄ 31 ₈	100 100	Daiwa Europe Baring Bros./Daishin	4.250 3.125	Bayerische Hypotheken**† Nippon Chemiphar***	
Suzutan Co.(f)#†	100	1995	4	4	100	Nomura Int.	4,000	Capcom(I)★★§	
City of Yokohamat	200	2001	10	8	99.20	Bank of Tokyo	6.110	PT Japia Comfeed(j) ** *§†	
Sun Wave Corp	100	1995	4	4	100	Dalwa Europe	4.000	Suncali Corp(k)**§ Suncali Corp***	
Nacional Financierat	150	2001	10	105	99.29	Chase Investment Bk	10.743	Suikaii Corpx R4	
Nationwide Anglia 2.6.(8)#† Tokimec Inc.	150	1995	4	(g)	100	Merrill Lynch	4 000		
Ontario Hydrot	50 500	1996 2001	10	4 1 ₄ 21 ₄	100 991 ₂	Nikko Europe Goldman Sachs	4.250 6.325	LIRE	
	300	200	10	44	39-2	Commen Sacis	6.323	Deutsche Bk Finance†	150
ECUs								B. T	
Meruzen(d)#†	80	1995	4	e _l s	100	Niko Secs.	8.125	PESETAS	
CANADIAN DOLLARS								Eurofima(h)†	10
Bque.Nationale d'Parist	100	1997	e	9	101	Hambros Bank	8.782	LUXEMBOURG FRANCS	
Ball Canadat	150	1996	5	85	101.70	UBS Phillips & Drew	8.946		
Gen.Elec.Cap.Corpt	150	1997	8	8	10112	Hambros ak	8.874	Interbrew int.Fin.**† Cregem Int.**†	3
AUSTRALIAN DOLLARS								Bque.CGER France**	į
Tasmanlan Public Fin.Corpt	100	2001	10	1034	99.65	Deutsche Bk Cap.Mkts.	10,808	GB Intf	1
			-•	4			,	Skend'viska Enskildat]
FRENCH FRANCS								Credit Com.d'Francet Glaveriux SA++++	1
Caisse Nat.d'Autoroutes†	1.7bn	1996	5	8 ¹ 8	99.60	Credit Lyonnais	9.227	BNP Canadarkt	
Credit Foncier d'France(i)†	2bn	2004	124	91	98,95	Credit Lyonnais	9.267	EAST COMMON AT	
D-MARKS								4-A Private placement. §Convertible	. With
Sekisui Jushi Corp4	70	1995	4	54	100	Yamaichl Int.GmbH	5.250	at 2.55%. Put option 31/8/94 at 100 23-21%. 0) Full pame of borrown	976
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SWISS FRANCS								23.21% o) Full pame of porrown Non-callable, e) Exercise premium 3-month Libor. Non-callable, h) Ma Put option 11/5/94 at 110% to yield by 25% at the Issue price until 4/1	B.7275
Chuo Paperboard(a)**§†	50	1996	-	412	100	Nikko (Switz) Fin.	4.499	by 25% at the Issue price until 4/1	1791, 1

Borrowers	Amount m.	Maturity	Av. life years	Соцроп %	Price	Book runner	Offer yield
JFM(c)t	160	1998		7	101 %	SBC	6.661
Bayerische Hypotheken**	100	1996	-	7 ¹ 2	102	Swiss Volksbank	7.019
Nippon Chemiphar * **	100	1995	-	412	100	Bque.Paribas (Sulsse)	4.500
Capcom(I)***	100	1998	-	414	100	Nomura Bk (Switz)	4.294
PT Japia Comfeed(j)**§†	50	1998	-	5	100	SBC	5.000
Suncall Corp(k) **	40	1996	-	212	78	Citibenk (Switz) AG	8.890
Suncali Corp≠kΦ	30	1995	•	412	100	Citibank (Switz) AG	4.500
LIRE							
Deutsche Bk Finance†	150bn	1998	7	115	10112	Bca.0'Amer.e O'Italia	11,309
PESETAS							
Eurofima(h)†	10bn	1996	5	11,20	101%	Bco.Hispano-Americano	10.771
LUXEMBOURG FRANCS							
Interbrew Int.Fip. **	750	1996	5	914	101.95	BGL "	8.760
Cregem Int. **	400	1994	24	858	102	Cregem Int.	8.600
Boue CGER France ***	500	1994	2.167	95	101.95	Banque UCL	8.604
GB Intt	1bn	1998	7	95g 91g	102	KBL .	8.737
Skand'viska Enskildat	750	1998	7	814	102	BGL	8.860
Credit Com.d'Francet	1bn	1998	7	94	102	BCEE	8.860
Glaveriux SA**	1bn	1997	5.167	93	1024	Credit European	8.818
BNP Canada ***	425	1998	7	914	102,10	BNP (Lux.)	8.841

at 2.55%. Put option 31/5/34 at 1053 % to yield 7.052%, b) Put option after 5 years at 1.23 025% to yield 71/36. C 23.21%. c) Pull pame of borrows - Japan finance Corp for Municipal Enterprises, Non-callable, d) Exercise Non-callable, a) Exercise premium fixed at 2.51%, Non-callable, b) Alabor, Non-callable, Non-callable, b) Alabor, Non-callable, Non-ca





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ABN - AMRO Bayerische Vereinsbank, Akten **Banca Commerciale Italiana** Commerzbanik, Aktiengesellschaft IMI Bank, SA Luxembourg Kredietbank, SA Luxembourgeoise J.P. Morgan Securities Ltd Sanwa International, Plc **Swiss Cantobank Securities Limited UBS Phillips & Drew Securities Limited**

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Westdeutsche Landesbank Girozentrale

October 1991

WORLD STOCK MARKETS					
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Guide to pricing of Authorised Unit Trusts Compiled with the assistance of Lautro §§

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CURRENCIES, MONEY AND CAPITAL MARKETS

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Market questions rate move timing

SINCE sterling was hit by the bout of nerves on the foreign markets a fortnight ago there has been a clear shift in sentiment on the London money markets about the timing of the next cut in UK interest

UK clearing bank base lending rate 18.5 per cent from September 4, 1991

Whereas a week ago there were still a substantial number of market participants who were predicting base rates would fall by % point to 10 per cent by the end of 1991, such optimists have now all hut

optimists have now all hut vanished.

This has been reflected in market rates. Three months inter-hank money closed on Friday at 10%-%, up by almost % point on the week. This rate closely, shadows bank basa rates and with it now decimally shows 10% per continuous shows 1 decisively above 10% per cent, of the economy.

2 IN NEW YORK

Gct. 25	Clean	Previous Close	
£ Spot	1.7125-1.7135 0.77-0.76pm 2.15-2.13pm 7.35-7.25pm	1.7110-1.7120 0.79-0.78pm 2.16-2.13pm 7.20-7.13pm	Steri U.S.I Cana
Forward premie	ous and discounts ap	ply to the US dollar	Austr Belg Dags
STE	ID DAG II	ADEX.	D-W

Oct.25 Previous

OTHER CURRENCIES

Oct. 25	£	S
Argentina	16927.8 - 16945.0	9908.00 - 991B.
Australia	2.1750 - 2.1770 1050.90 - 1052.06	12715 - 1272
Fining	7.0695 - 7.0995	4.1350 - 610.4
Greece	322.150 • 327.20 0	188.250 - 191.2
Hong Kong	13.2640 - 13.2770 115.50°	7.7545 - 7.756
Korea(Stit)	1274.62 - 1295.15	745.80 - 754.8
Kuwatt	0.49315 - 0.49395	0.28840 - 0.288
Malatela	59.85 - 59.95 4.7010 - 4.7090	34.90 · 35.05
Mexico	5142.00 - 5149.00	3010.00 - 3012.
N.Zeakurd	3.0660 · 3.0700 6.3960 · 6.4465	1.7905 - 1.792
Shottore	2.8990 - 2.9060	1,696 - 1,697
S.Af (Cm)	4.8630 - 4.8745	2.8490 - 2.850
	5.2975 - 5.3800 15.15 - 45.25	5.0960 • 3.144 26.40 • 26.45
U.A.E.	6.2560 - 6.3330	3.6715 - 3.673

CHICAGO Pres. 99-12 99-17 95-28 95-04 91-28 91-28 92-24 92-24

Low 95.08 95.14 94.96

PHILADELPHIA SE E/S OPTIONS E31,250 (cests per EL)

the market is saying it expects no change in interest rates this

year.
The cash market has always cautious ir been more cautious in expecting another base rate cut: at no stage has it discounted a further % point rate cut this year.

Even the more volatile futures market has become more circumspect. In the run up to the Conservative party conference, futures dealers were clearly anticipating a % point reduction.

Now, no rate move is expected by the futures market this year and if the current trend continues one will not be pencilled in for next year

The reason for the change in sentiment is not hard to fathom. With sterling still close to DM2.90, the level the Bank of England recently chose to defend, the market is saying there can be no more reductions in interest rates, whatever the immediate needs. whatever the immediate needs

CURRENCY MOVEMENTS

-215 -143 +46 +115 -23 +27 +27 +239 +178 +156 -138 -198 +758

CUR	REN	CY RA	TES
Oct, 25	Bank & rate	Special * Drawleg Rights	European † Currency Unit.
Sterling U.S Dollar Consellan S Austrian Sch Belgian Franc Danish Krone D-Hash Dutch Guilder Fresch Franc Lapanuse Ven Lapanuse Ven Spanish Peseta Spanish Peseta Suedish Krone Sterling Seek Drach Heid Pant	5.004 7.500 7.500 1015 8 100 7.00 10.00 10.00	0,743938 1,35684 1,55685 16,2563 47,5405 2,51029 2,51029 2,59279 7,86424 1726,78 178,153 9,05080 144,898 8,41057 2,01966 N/A	0.704164 1.20709 1.35786 14.4030 42.1388 7.93014 2.04700 2.36664 6.98618 1530.28 158.250 8.02114 128.814 7.45622 1.79253 229.399 0.765503
4 Back rate refe Duss are not qu	noted by t	tral bank disc he UK, Spain	ount rates. and keland.

POU	ND SPOT	- FORWAR	D AGAIN	ST	THE POU	ND
0et \$5	Day's spread	Clase	One month	17 %	Three months	% 9.3.
75	1.7100 · 1.7150 1.9240 · 1.9330	1.7115 · 1.7120 1.9270 · 1.9290	0.76-0.74cpm 0.41-0.32cpm	524 227	2.16-2.13pm 1.14-1.02pm	5.0 2.2
Hetherlands . Helglum Denmark	5.2700 · 5.2850 59.70 · 60.00 11.2325 · 11.2750	5.2750 · 3.2850 59.85 - 59.95 11,2650 · 11.2750	3₁. Lepin 8-3cam 1 L. Leoream	110	1 Կ- դրո 22-17թո 3 4-2 կրո	12
heland Sermany	1.0860 · 1.0890 2.9050 - 2.9150	1.0880 · 1.0890 2.9100 - 2.9150	0.04-0.09 pas 1 ₁₋₁₄ pas	-0.66 1.29	0.06-0.16ds	-04 0.9
Portugal Spale Haly	248.75 · 250.25 182.50 · 183.25 2169.00 · 2176.75	249.50 - 250.00 182.70 - 183.00 2175.00 - 2176.00	5-20cds 17-36cds car-2lireds	-0.60 -1.74 -0.55	98-127dk 81-125ds 4-5ds	-1.8 -2.2 -0.8
France	11.3725 - 11.4075 9.9125 - 9.9500	11.3975 - 11.4075 9.9300 - 9.9400	4-horais 14-14com	-0.33 143 -0.35	1-parpm 31 ₂₋₂ 1-pm 4-1dis	0.1 1.1 -0.2
Japas Austria	10.5700 - 10.6050 224.50 - 225.50 20.42 - 20.48	224.50 · 225.50 20.42 • 20.45	કું. કુંતેલકીક કું-કુંકુલ્લ 24-15-green	123	23,-24pm 44-14pm	4.1 0.5
Switzerland . Ecu	2.5400 - 2.5500	2.5400 · 2.5500	5-50m 0 12-0 Docum	2.06	14.11pm 8.21-0.15cm	18

	EXCHANGE CROSS RATES										
Oct 25	£	\$	DN	Yes	F Fr.	S Fr.	Ħ FI.	Lira	C\$	8 Fr.	Ecu
£	1	1.711	2.912	225.0	9.935	2.545	3.280	2175	1.927	59.90	1.416
S	0.584	1	1,702	131.5	5.807	1.487	1.917	1271	1.126	35.01	0.829
DM	0.343	0.588	1	77.27	3.412	0.874	1.126	746.9	0.662	20.57	0.487
YEN	4.444	7,604	12.94	1000.	44.16	11.31	14.58	9667	8.564	266.2	6.302
F Fr	1.807	1.722	2.931	226.5	10.	2.562	3.301	2189	1.940	60.29	1,427
S Fr.	0.393	0.672	1.144	88.41	3.904	1	1.289	854.6	0.757	23.54	0.557
N FI.	0.305	0.522	0.888	68.60	3.029	0.776	1	663.1	0.588	18.26	0.432
Lira	0.460	0.787	1.339	103.4	4.568	1,170	1.508	1000.	0.886	27.54	0.652
£ S	0.519	0.888	1.511	116.8	5.156	1.321	1.702	1129	1	31.08	0.736
B Fr.	1.669	2.856	4.861	375.6	16.59	4.249	5.476	3631	3.217	100.	2.367
Ecu	0.705	1.207	2.054	158.7	7.006	1.795	2.313	1534	1.359	42.24	1
en per :	en per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.										

E	URO-CI	JRREN	CY INT	EREST	RATES	
et 25	Short. term	7 Days notice	Doe Manth	Three Months	Stx Months	One Year
ranc	10½ 10½ 5½ 5½ 6½ 7½ 6½ 6½ 6½ 6½ 6½ 6½ 6½ 6½ 6½ 6½ 6½ 6½ 6½	103 - 104 55 - 75 86 - 75 86 - 75 87 - 89 91 - 98 91 - 98 1174 - 51 61 - 51	1018 1018 55 75 81 91 91 91 91 91 91 91 91 91 91 91 91 91	10H -	1057-080-0-150-4- 1057-080-0-150-4- 1057-0-80-0-150-4-	103 - 103 77 - 103 77 - 103 84 - 103 94 - 11 95 - 11 96 - 11 97 - 12

	оирои інте	212241415 1	
11,00 a.m. Oct 25	3 months US dollars	6 months	US Dollars
bid 53 ₈	after 5½	bld 5%	offer 51g

	I	ONE	/ RAT	res							
NEW YORK											
Lucht me											
0ct.25	Overnight	One Mouth	Two Months	Three Months	Six Months	Learbard Interrestion					
Frankfurt. Paris Zurich Amsterdam Tokyo Milan Brussels Oublin	890-9.00 84-87 774-75 9.00-9.15 64-65 10-7-10-4 91-94 91-10-6	9.00-9.15 B3-9 84-85 9.15-9.20 61-65 111-114 92-94 10-104	9.05-9.20 Bil-9&	9.20-9.35 94-94 84-84 9.27-9.35 64-64 114-114 94-94 104-104	9.25-9.40 914-914 104-104	9.25 9.25					

Oct 25	Overnight	7 days notice	One Moath	Three Months	Six Mont <i>i</i> ts	Year Year
raterbank Offer unterbank Bis iskerling CDS — uneal Authority Deps. uncal Authority Books Exonal Mith Deps. Exonal Mith Deps. Exonal Mith Deps. Exonal Mith Deps. Exonal Mith Company Opposits Exonal Mith (Say) Inance Homse Deposits Exonal Mith (Say) Inance Homse Deposits Exonal Mith (Say) Inance Homes Deposits Exonal Mith (Say) Inance Homes Deposits Exonal Mith (Say) Inance Homes Deposits Exonal Mith (Say) Inance Deposits	101, 10 10 <u>13</u> 105; 	10½ 10½ 10½	19201 - 1921 - 1	1907 - 1940 1910 - 1940 1911 - 427 1917 - 427 1917 - 427	10001 1015 1015 100 100 100 100 100 100	10 10 10 10 10 10 10 10 10 10 10 10 10 1

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS			FRIC	AY OCT	09ER 25	1991 .				HURSDAY	OCTOB	ER 24 19	91	DOL	LAR NO	EX
Figures in parentheses show number of lines of stock	US Dollar Index	% chg (\$) since \$1/12/90	Pound Sterling index	Yen	0 M Index	Local Currency Index	Local % chg irem 31/12/90	Cross Div. Yleid	LIS Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1901 High	1991 Low	Year ago (approx)
Australia (69)	155.78	+31.8	134.93	129.38	137.76	131.76	+29.4	4.62	158,41	135.41	129.62	138.04	132.33	158.25	112.74	
Austrie (20)	101.58	- 17.8	188.67	134.21	142.94	142.79	-8.7	2.00	162.90	141.03	135.00	143.76	143.68	222.37	154.82	213.63
Beiglum (47)	129.12	-23	111.85		114.22	111.45	+ 10.4	5.32	128,81	111.52	105.74	113.67 122.57	111.18 113.15	131.20 142.27	118.04 126.49	138.23 123.45
Canada (114)	138.44	+8.5	118.92	114.98	122.45	112.62 226.26	+3.3	3.31 1.57	186,90 252,04	120.25 218.20	115.10 208.87	222.43	225.81	270.58	217.74	
Denmark (87)	252.63	+8.5	218.84	208.84	223.48	73.87	-5.9	3.30	85.11	73.68	70.53	75.11	73.46	125.15	83.69	101.57
Finland (15)	85.02	- 17.8	73.88	70.62	75.21 122,10	125.79	+ 18.8	3.53	138.13	119.58	114.48	121.89	125.56	152.26	119.11	139.18
France (109)	138.15	+ 4.0	118.87	114.74 87.83	93.31	93.31	+7.3	2.43	108.38	92.10	88.17	93.88	93.88	125.35	94.15	118.05
Germany (65)	105.49	-6.7	91.88 141.68	135.85	144.69	162.88	+33.5	4.47	164, 15	142.11	136.03	144.88	163.46	169.98	118.62	
Hong Kong (55)	163.56 158.09	+34,3	135.22	129.65	138.05	139.74	+ 18.7	3.58	157.53	138.38	130.55	139.02	141.24	182.46	132.88	162.29
Ireland (18)		-12.4	59.39	58.94	60.65	65.08	-1.3	3.58	69.34	80.03	57.46	81.10	86.81	88.23	64.76	86.61
Haly (77)		+ 18.2	122.33	117.30	124.94	117.30	+8.8	0.72	142.13	123.05	117.76	125.45	117.78	146.97	118.23	138,67
Japan (474)		-4.9	174.70	167.51	176.40	213.48	-3.8	2.89	203.59	176.26	158.71	179.67	216.35	247.78	168.18	206.48
Malaysia (88) Mexico (16)		+ 127.0	1149.28	1101.88	1173.63	4367.68	+ 131.5	1.21	1330.86	1152.18	1102.89	1174.52	4381.27	1336.04	534.45	552.88
Netherland (31)	138.72	+ 3.0	120.17	110.22	122.72	121.34	+17.7	4.44	139.39	120.65	115.51	128.02	121,70	145.73	125.70	185.05
New Zeeland (14)		+ 10.4	41.53	39.82	42.41	45.61	+ 16.3	6.37	47.43	41.06	39.31	41.86	45.21	54.84	41.18	53.18
Norway (31)	185.67	- 9.1	160.84	154.22	164.25	167.90	+3.0	1.68	188.56	163.25	158,28	186.41	170.65	223.24	178.58	242.24
	:==:=:	+24.3	171.44	164.38	175.07	154.68	+21.2	2.23	201.18	174.15	186.70	177.52	158.80	208.25	. 151.63	184,09
Singapore (38j South Africa (61)		+88.8	221.50	212.38	226.16	174.39	+28.0	2.76	254.68	220.49	211,05	224.76	174.23	258.85	173.00	183.82
		+7.4	130.54	125.17	139.91	122,10	+20.2	4.49	161.35	131,03	125,43	183.57	122.86	171.12	181.51	150.47
6pain (58) Sweden (26)		+ 13.7	157.02	150.56	160,35	168.18	+25.2	2.68	182.29	157.B2	161.07	160.88	167.11	204.12	146,60	177.44
Switzerland (59)	93.38	+ 5.0	80.87	77.55	82.80	68,10	+22.5	2.24	94,57	81.87	78.38	83.47	57.21	100.87	62.17	. 01,01
United Kingdom (240)	172.84	+4.3	149.72	143.54	152.88	149.72	+ 17.6	4.95	173.70	150.38	143,94	153,28	150,38	187.44	156,27	161.57
		+17.1	135.20	129.64	138.07	156.08	+ 17.1	3.10	156,48	135,47	129,68	138.11	156.48	161.02	125.95	122.75
USA (526)	100.00	T 111.1											400.04	484.88	100.50	
Europe (827)	136.67	+ 1.6	118.39	113.52	120.80	120.19	+ 15.2	3.99	137.41	118.96	113,87	121.27	120.74	151.52	125,50	137.14
Nordic (106)	180.31	+7.5	156,10	149.77	159.50	157.10	+20.6	2.07	180.87	156.59	149.68	159.62	157.60	200,81	155.55	187.87
Pacific Basin (718)	141.68	+14.1	122.73	117.68	125.33	116.63	+ 10.9	1.06	142.57	123.43	118.15	125.83	116.12	145.92	117.86	167.39
Euro - Pacific (1545)	140.03	+ 6.8	121.30	116.30	123.87	120.11	+ 12.6	2.20	140.88	121.95	116.73	124.31	120.63	147.66	121.29	137,65
North America (640)		+16.5	134,19	128.68	137.06	153.15	+ 16.3	3.11	155.32	134.46	128.73	137.09	153.55	159,66	125.91	122.71
Europe Ex. UK (587)		-0.3	99.74	95.65	101.87	103.21	+ 15.4	3.27	115.79	100.25	95.98	102.21	103.70	129,80	103.58	121.67
Pacific Ex. Japan (244)		+26.2	126.60	121.41	129.29	129.62	+25.1	4.26	146.86	127.16	121.73	129.53	130.23	147.60	111.40	121.63
World Ex. US (1738)	141.93	+9.6	122.95	117.90	125.56	121.45	+ 16.0	2.24	142.74	123.57	118.29	125.97	121.98	148,18	122.32	137.67
World Ex. UK (2022)	143.04	+ 13.2	123.91	118.61	128.54	130.56	+14.2	2.28	143.68	124.39	119.07	126,81	131.02	145.77	120,06	128.52
	144.92	+11.9	125.53	120.38	128.20	132.03	+ 14,4	2.55	145,59	128.04	120.68	128.50	132,52	148,66	122,92	131.25
World Ex. Sc. Af. (2201)	149.39	1117	129.41	124.10	132.17	140.49	+ 17.0	3.46	149.93	129,80	124,26	182.34	140,96	152.85	125.69	129.00
World Ex. Japan (1788)	148.00	1 / 11.7	120171						440.04		101.55	400 40	400 00	440.04	450.00	404 42
The World Index (2262)	145.85	+12.2	126,17	120.98	128.85	132.40	+14.5	2.55	148.91	126.67	121.25	129.13	132.88	149.01	123.28	181,45

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US \$ Index), 90.791 (Pound Sterling) and 94.84 (Local); Nordic: Dec 30, 1988 = 139.85 (US \$ Index), 114.45 (Pound Sterling) and 123.22 (Local).
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Constituent change with effect 28/10/91; Deletion: Christianie Bank Free (Norway).

LONDON RECENT ISSUES											
EQUITIES											
issae Price	Am'nt Paid	Latest	19	A1	Stock	Clasing Price	-ter	Net. Oiv	Tiones Cov'd	Grass	P/I
т	199	Date	High	Low		PTRE			- T	i acau	
180	FP	-	200	188	Adam & Harvey	199		W10.0	5.9	6.7	3.
ī	F.P.	[-	212 110 91	s s	Butte Mishig Wirets Capital Ventures In	21 ₂		ļ .Ξ	=] =	
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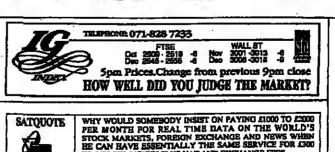
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INT. BANK AND O'SEAS Accord Stack | Price | 18 % | Last | Interest | City-fine | 17 % | 18 % | Last | Interest | City-fine | 17 % | 18 % | Last | Interest | City-fine | 17 % | 18 % | 18 % | Last | Interest | City-fine | 18 % | Last | Interest | City-fine | 18 % | Last | Interest | City-fine | 18 % | Last | Last | Interest | City-fine | 18 % | Last | Last | Interest | City-fine | 18 % | Last **CORPORATION LOANS** COMMONWEALTH & AFRICAN LOANS 35th Rhod, 87-92 Asstd... | 951..... 7.1 | 7Feb 7Aug LOANS

> **FOREIGN BONDS & RAILS**





TO 2600 PER MONTH PLUS VAT AND EXCHANGE FRES.

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COMPOSITE PRICES

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It will be of particular interest to 54% of top chief executives in Europe who read the FT. If you wish to reach the FT's business readers by advertising in this survey contact. Charles Blandford, Financial Times, 20 Upper Merrion Street, Dublin 2 Tel: Dublin 761 184 Fax: Dublin 762 125 **EUROPEAN FINANCE** - R 64 564 70 562 12 1775 1 35 122 30 369 01 8545 1 18 2776 1 58 309 2 0.33 25 1445 6 7 170 0.20 13 12 1.20 17 2085 1.00 2 201 0.20 9 79 0.20 9 79 0.20 18 498 0.60107 5111 0.62 7513001 AND INVESTMENT The FT proposes to publish the above survey on 6th December 1991 54% of Chief Executives of Europe's largest companies 17913 116192887 001371076 001371076 22 333 1 0 26 24 872 0 25 12 7 1 15 165 7 1033 1 0.06 15 229 1.60 15 19 0.48 5790 1 0.68 15 140 2 0.40 10 27 18½ 12¾ 17 18 5¾ 0¾ 13½ 11¾ 26 23⅓ 13¾ 12⅓ 5⅓ 65½ 18¾ 17¾ 22¼ 21¾ 18 14¼ ********* * 12 to 8 to 12 to 1 read the FT.* If you want to reach this important audience by advertising in this survey, call Nigel Bicknell or Simone Egli in Geneva Tel: 022 7311604, Fax: 022 7319481. - K 121 25 l, 56 8 2; 78 0 3; 55 9 3; 549 39 4; 173 10 2; 132 25 33 739 16 5; 132 25 3900 0 5; 132 25 18 3; 19 1914 614 614 615 614 814 9 814 9 7612 7612 3214 2214 1014 161 101 101 101 101 101 11 11 11 1512 1514 K Swiss -1s Kanner C Karcher C Kaster Or Patricia Surridge in London - D - 12 4086 5½ 0.18 16 14 12½ 0.13 22 2 66 18 533 2½ 10. 131 10 0.55 1000 65½ 0.40 12 24 10½ 0.20 12 24 10½ 0.20 12 13 35½ 0.44 12 98 22½ 1.55 962 28½ 1.55 9 29 30½ - D 0.44 8 0.35 14 0.76 15 0.50 13 169 0.72 13 0.18 4 0.06 14 15 18 1 9 4½ 4½ 12 12½ 61 35½ 2½ 15½ 35 35½ 35 35½ 9½ 10) 35½ 35½ 22 22½ 55½ 35½ Tel: 071 873 3426, Fax: 071 873 3079. - S 2.00 0 1594 6 0.30 14 102 1 0.24 17 343 1 0.52 9 248 0.05 13 633 19 1357 6 1570 1 8.37 14 2003 Data source:Chief Execut Europe 1990 385₃ 375₃ 614₄ 61 114₄ 185₂ 29¹2 35³4 17³4 617³4 38 37³4 50¹4 48³4 7³4 7³5 36 34³4 Saleto Op St Petui 5 Sandarso Santorso Santorso Saletoso Saletos Sal よるままままよ ce: Chief Executives in Europe 1990 FINANCIAL TIMES FINANCIAL TIMES EUROPE'S BUSINESS NEWSPAPER

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MONDAY INTERVIEW

Defender of local services

Howard Davies, controller of the Audit Commission, talks to John Willman

he Audit Commission was one of the past decade's better inno-vations in local government. Set up in 1982, it has been the scourge of bad man-agement in local services through its tenacious promotion of economy, efficiency and

It has also won grudging recognition of the value of its work from heleaguered councils which hava increasingly acknowledged the need for effective stewardship of scarce

Credit for this acceptance of the Audit Commission's rola must go in large part to Mr Howard Davies, the current chief executive who is graced with the Orwellian title of controller. For in addition to exposing opportunities for bet-ter management of resources, he has heen a staunch and articulate defender of the local delivery of services and the need for a stable tax base from which councils can operate.

Mr Davies has carved out a role as the equivalent of the French enarque. These are the graduates of the Ecole Nationale d'Administration who move seamlessly between the private and public sector and

public administration.

He spotted the need for a British equivalent in 1974, as a foreign office high-flyer at the British embassy in Paris. After moving to the Treasury, he took himself off to Stanford Business School on a Harkness fellowship, later joining McKinsey, the management advisers.

A period as part-time adviser to Mr Nigel Lawson, the chancellor, at the Treasury helped him keep a foot in both public and private sectors, and he eded Mr John Banham as controller of the Audit Commission in 1987. At the age of 36, he had reached a top government post 15-20 years ear-lier than would have been possible if he had stayed in Whitehall, a vindication of the career strategy he describes as

health service to the commis-sion's remit, Mr Davies is a central figure in the drive to improve the quality, value and accountability of public services. He is convinced that an important step in achieving this is the separation of pur-chaser and provider.

"In the past, the purchaser and provider of public services have largely been the same. The problem with this is that you develop a service which is convenient for the producers and not the users. So the grass is always mowed on Thurs-

NE Of the sayings of Dr Johnson was that nature gave women so

much power that the law very wisely gave them little. Even if

there was any substance in

that statement for some time after the end of the 18th cen-tury, five law lords last week

finally put paid to Chief Jus-

tice Hale's statement more

than 250 years ago that a husband cannot commit rape upon his wifa. In so doing thay

ended the law's indifference to

the plight of some married

Immunity in law for marital

rspe has survived the multiple

attentions of parliament over

the years when legislation on

sexual offences has heen

enacted. It is no surprise that the judges have now felt

impelled to do a bit of their

own legislating from the bench. Nonetheless the courts

might have thought that par-liament had intended to leave

this particular sexual problem, which is strictly confined to

the matrimonial home, well

alone. And since the whola

question of marital rape is cur-

rently being reviewed by the Law Commission, the judges

might have adopted the strict

constitutional line of simply

reaffirming a bad but well-es-

tablished legal rule while tak-

ing the opportunity to urge speedy legislation. Legislating through a single

case in the courts is never very

satisfactory, simply hecause not all the ramifications of a

particular issue can possibly be

addressed within the court pro-cess. Only legislation by parlia-

ment can ancompass all the

myriad aspects of social policy.

impossible in marriage was

The proposition that rape is

days, even though thet's the day the local school needs to use the sports field. And expenditure is not rigorously controlled since no one has an incentive to cut costs.

"The absurdity of this was exposed in the rate-capping confrontation of the early 1980s, when councils campaigned for jobs and services

– and ended up saving jobs at
the expense of services."

Mr Davies detects an accep-tance even in Labour councils that the purchaser/provider split provides a discipline for the provision of services through some form of contract or service agreemant. One advantage is that it forces the purchaser to define the objectives of the services.
"If councils subsidise the

prices of sports facilities, for example, the people using them certainly henefit. And non-users may decide it is worth paying a higher commu-nity charge to support facilities which get people off the streets who might otherwise be chuck-ing bricks through their windows. What isn't rational is to subsidise squash courts for people who could afford to pay the full price. We found a lot of councils playing Robin Hood in

At the forefront of the search for better management of pub-lic services is what Mr Davies calls "syndicated management consultancy". He uses the example of a current study of bed management in the health service to illustrate the commission's approach.
"The bed is the unit of

resource in a hospital, and the key question is how to use those beds to maximise the throughput of patients in a way which is compatible with good-quality health care.
"A study team looks at the

ways different hospitals manage the problem in this country and overseas. Should con-sultants or specialists have their own allocation of beds? Should there be a bed clearinghouse in the hospital?

Audit Commission's work is in the audit of local authorities and NHS bodies in England and Wales. The commission

JUSTINIAN

never a sound one. The essence

of the offence of rape is that the male physically imposes his sexual will on the female without the latter's consent.

The only reasonable ground for

the purported rule was that a

consent to sexual intercourse could be implied from the nor-

mal relationship of spouses.

But there never was a good

reason for treating this implied

consent as a presumption of

law that could not be rabutted.

mentator of the criminal law,

Mr Justice Stephen, said that

the consent to sexual inter-

course was confined to the

decent and proper use of mari-

tal rights. If a man used vio-

lence to his wife in circum-stances in which her health or

safety required or justified her

in refusing her consent, he

would at least have committed

That's the point. Every rape, whether the woman is the

man's wife or not, constitutes an assault. What value, there-

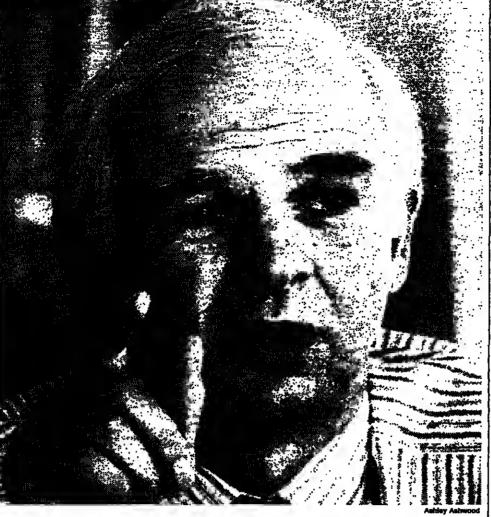
fore, is there in elevating socially unacceptable behav-

iour from an offence against the person into a crime of spe-cific sexuality? Does the

offence of an assault change its

an indecent assault

That great 19th century com-



'Government should look again at the business rate'

ment for more money rather

than downwards, controlling costs and finding value for

"One solution is for local

authorities to have more tax-

raising powers. The government should look again at the

national business rate which

has not been a popular tax and which could be returned to

council control. The alterna-

tive is to take functions away

from local government, which

sion would advocate."

is not something the commis-

When it comes to the govern-ment's proposals to restructure

local government, Mr Davies

confesses to a strong feeling of

ennui. In a characteristically

has a statutory responsibility to appoint auditors for these bodies, and about two-thirds of council audits are performed by in-house auditors. The rest is contracted out to approved accountancy firms.

PERSONAL FILE

1951 Born in Prestbury, Chaehire. Educated Manchester Grammar School, Merton Collaga, Oxford, Stanford Graduate School of Business. 1973-74 Foraign Offica. 1975-76 Privata sacratary to

ambassador, Paris. 1976-82 Treasury. 1982-87 McKinsey & Co. 1985-86 Special adviser to UK

chancellor. 1987- Controller, Audit Com-

In the recent debate over the responsibility of corporate anditors, Mr Davies ruffled some feathers by suggesting that this public sector approach could have benefits for the private sector.

"The model of audit appointment and regulation we use establishes a balance between the differing interests the auditor is working for. The individual council pays the audit bill, and this creates a cash nexus between the auditor and the

Although the commission could never take a formal stance on the introduction of the poll tax, Mr Davies made little attempt to conceal his

criminal character because it is called indecent or because the

label is altered to the emotionally charged crima of rape?

The crime of rape is carnal

knowledge of a woman without her consent. Carnal knowledge

is the physical fact of penetra-tion, although very slight pene-tration suffices as proof of the offence. The completion of the

sexual act need not have

It is a notorious feature of

rape trials that an accused can

properly defend himself, if he can show that ha believed he

acted with the consent of the woman. It is fanciful to accept such a defence in a case where

it is clear the man had to over-

come the woman's resistance by force, whether she was his wife or not. But in the absence

of clear evidence of physical

force or resistance, evidence about a man's belief in the

existence of consent to sexual

intercourse is always a difficult

issue for juries to disentangle.

Over the years the evidential

problems facing prosecuting authorities have led consis-

tently to an acquittal rate of

Without any sexuality in the

ingredients of the crime, prose-

cuting authorities will be able

more readily to prosecute suc-cessfully the offender for any physical violence inflicted. The

aggravation of the assault by

the presence of an indecent or

sexual purpose, and its unwanted imposition of male

sexual dominance, should

properly be dealt with at the

sentencing stage of the crimi-nal trial. Such a conviction for assault would receive punish-

ment that is now appropriately handed down in the case of a

convicted rapist, on a scale

about one-third.

Limited victory for women

belief that it would not achieve of Regions and regional and the ends the government intended. He welcomes tha new

council tax, feeling that a property base is more suitable for local authorities. But he is wor-ried that the introduction of the council tax on its own will not produce long-term stability for local government.

"The proportion of income local authorities raise for themselves will be as low as 15 utors on a regional basis who can have the right kind of influence on EC regional and per cent, a gearing of seven to one. If the link between taxation, spending and voting is broken, the key skill becomes grantsmanship, with councils looking upwards to govern-

As for Mr Davies himself, what next? His *enarquique* career development points to a return to the private sector. He has no direct experience of running a large company in a competitive environment, but at the Audit Commission be has managed a staff of 1,000 and a budget of £60m earned entirely through fees. At just 40, he has plenty of time to make at least two more career imms across the public private. jumps across the public/private divide before retiring to the House of Lords.

social policy are oriented towards regional needs. "It's certainly arguable that without some sort of regional structure, the UK will be increasingly disadvantaged with no way of influencing Community regional policy. My feeling is that we probably need to create a set of interloc-

EC ahead in trade stakes

oes the US feel threatened by Europe's plan to create a 19-nation free trade zone stretching from the Arctic to the Mediterranean? I was in Texas last week attending a Federal Reserve
Bank of Dallas conference on
free trade this side of the
Atlantic. I can report strong
enthusiasm for a US free trade
zone, preferably extending further south than Mexico, how
comparatively little anyiety comparatively little anxiety ahont a single European market made up of 380m con-

In one session, the audience
- mainly husinessmen and economists - was asked whether the US would still dominate the world stage in 2050. Fewer than half put up their hands. The speaker was impressed, noting that less than 10 per cent of his college campus audiences was compa-rably optimistic. But who, he persisted, was likely to supplant America? The possibili-ties discussed were Japan, an Asian bloc of nations, and a united western hemisphere. Somebody finally mentioned Europe hut this option was swiftly dismissed. In Dallas, the European Community is seen as too bureaucratic and fractious to pose a serious challenge to US economic or political leadership.
This may reflect the fact that

Mrs Margaret Thatcher is one of very few European politicians to win popularity in the US. But it also stems from ignorance. In a thoughtful address, Mr Gerald O'Driscoll, a senior economist at the Dalas Fed, pointed ont that Americans, enthralled by the aconomic development of Japan and the Pacific Rim during the 1980s, had failed to notice the winds of change hlowing in Europe. In particular, they did not realise that the EC's 1992 programme was threatening to "leapfrog" the US. Excitement about a free trade pact with Mexico was fronic, he implied, when trade within the US was still heavily impeded.

The notion that the US lacks a free internal market may appear absurd: interstate barriers are explicitly forbidden by the commerce clause of the Constitution. But Mr O'Driscoll



on America

says this protection is limited because courts have focused on the form rather than the content of statutes. Legalism allows informal non-tariff bar-riers to proliferate: for example Texas managed to ban Florida grapefruits for years by ruling that their relatively high acid content made them inedible. The most serious restraints are in service industries: many professions still impose state certification and licensing restraints.

Mr O'Driscoll is particularly

exercised by restraints on US banking. From 1993, EC bank-ing regulation will be based on the principle of "home rule". A Dutch bank, say, will be able to operate under Dutch law anywhere in the EC, even in countries whose own laws are stricter. This approach, based on the principle of "mntual recognition", will force all member countries to liberalise their banking regimes. But the US is still wedded to

"host state" rules: even if interstate banking is finally permit-ted, a Californian bank operat-ing in Texas would have to obey Texan rather than Californian law. In a strange reversal of history, the EC may thus create a more efficient internal market than the US. On the issue of enlargement,

Europe also seems at an advantage. The countries knocking at the EC's door - such as Sweden and Switzerland - are among the most affinent in the world. Latin America, by contrast, has an average annual per capita income of only just over \$2,000 (£1,170). Mexico, by all accounts, is achieving miracles. But since its gross national product is only 4 per

cent of that of the US, free trade across the Rio Grande is unlikely to transform US living standards.

And enlargement hayond of Mexico remains doubtful. Most Latin American countries want Latin American countries want to reform their economies. But few — perhaps only Chile — were seen in Dallas as having the ability to persist with tough policies of the kind championed by Mexico. In a decade long-term assignits for decade, long-term aspirants for EC membership, such as Poland, Czechoslovakia and Hungary, may well be in better economic shape than potential recruits to a US hloc, such as

Brazil and Argentina.

The ability of the US to profit from freer trade may also be impaired by its flawed social policies. The EC has mechanisms to ease the human costs of economic integration; the US does not. When some-hody in Dallas asked what. Texas would do to help the losers from Mexican free trade, he was greeted with a stony silence. At a final panel session, I was struck that trade policy almost fell off the conference agends: the bulk of the questions focused on domestic issues such as education and health care. Indeed, when a collega lecturer sharply rebuked a panellist for praising the quality of Texas schools, the andience hroke into its only round of spontaneous. Yet the audience's priorities

were not entirely misplaced. The gains from more liberal trade with poor countries will not be spread evenly. On the contrary, given the huge pool of Third World workers on subsistence incomes, downward pressure on the wages of unskilled workers in the US is. likely to intensify, fuelling sup-port for new forms of protec-

The solution is to raise US skill levels by improving edu-cation and training while providing more generous assisviding more generons assistance for temporarily displaced workers. But judging from the Dallas conference, little progress is likely on either from For both social and economic reasons. I thus conclude that the EC is better placed than the US to make a success of received free trade. regional free trade.

caustic phrase, he describes the role of the Local Govern-"cross-dressing". Now with the addition of the "At the end of the study, an ment Commission as being a sort of Antiques Roadshow audit guide is produced which "But if the council is doing details the best practice and sets out how it can be transsomething wrong, as in the case of Hammersmith and Fulwhich will spend its time evalposed elsewhere. The aim is a uating the merits of this muchguide which can be used in every hospital and health ham with currency swaps, or it is paying no attention to value loved rural district council or that ancient shire county. authority, with national data, for money as Livarpool did He does wonder, however, at benchmarks, interview guides, until quite recently, the audithe failure of the government questionnaires - even outline reports, with decision trees to tor is required to make a pubto discuss the consequences for lic interest report. And because local government of closer European integration. "The word 'Europe' does not highlight recommendations." we appoint the auditors, the Although it is this value-forcouncil cannot sack them in retaliation." money work which attracts the appear in the green paper on headlines, the hulk of the

introducing unitary authorities. Yet the European Commission is open about its desire to create a Europe des régions. There's a European Assembly

ity of the particular criminal

rape is lifa imprisonment under the Sexual Offences Act

1956. The Advisory Council on

the Penal System, in its report on Sentences of Imprisonment in 1978, recommended, on the

basis of contemporary sentenc-

ing practice, that the maximum should be seven years.

Parliament, however, under pressure from certain lobby groups, in 1985 actually

increased the penalty for attempted rape from seven

Only a small proportion of the victims of violent sexual

crime in fact sustain serious

physical injury. The injury is

more related to the psychologi-

cal wounding of the female vic-tim, and that is never easy to

measure in terms of the appro-

priate penalty.

If the threat or use of vio-

lence by a man to effect sexual

whereby a man forces his sex-

ual partner to have sex for fear

of losing marital or parental

There is also a more intense

public focus now on the inci-dence of cases of sexual harass-

ment. But these are matters

not for the full weight of the

criminal law but for some civil

process. Hence, the limited vic-

tory in the House of Lords for

women in marriage is part of a

larger problem of society's

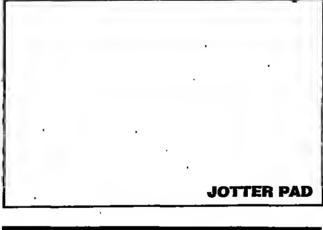
duty to protect women. That is a task not for judges but for parliament, informed by appro-

priate committees of review

and inquiry.

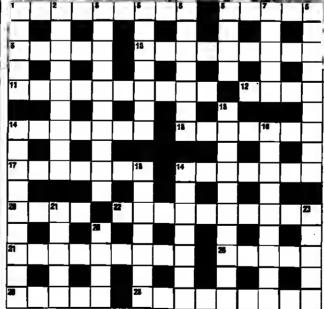
years to life imprisonment.

The maximum penalty for



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ACROSS

- 1 i down operator (9) 6 l down this for paper in holes (5)
- 9 Prevent returns with no tips? Certainly not (5)
 10 Rag trade was initially slow
- in e certain direction (9) 11 It won't spread? Bad luck
- (4.5) 12 Back the regulations lackintercourse is amply covered by the criminal law, it would ing English? It's a disgrace leave (as it does now) untouched coercive sex. 14 Have a go at draw (7)
 - made worse (7) 17 Had the power and fell, we hear (7)
 19 Expired fund, etc (in trou-
 - ble) (7) 20 1 down this for training? (4) 22 State of unpreparedness in which tritium may gst
 - involved (10) 25 Experimental temporary home took in about four (9) 26 1 down this to be stupefied

 - 27 Stopped out east and inspected carefully (5)
 28 Plant to go at a good rate (9)
- 21 1 down this for joke endings
- (4)
- 28 Join the beginner one from the country (5) 24 1 down this for data storer

Periodical (5)

food value (10)

tainer (4)

time) (5)

dered (10)

18 Thick clots (7)

2 Aviator with PT exercising:

one at the highest level (9) 3 Decoration given for added

4 The French people in extra-terrestrial feature (7) 5 Opposes one society sur-

6 1 down this for drink con-

Record tried out for 12 (9)

13 Nuisance could be bewil-

14 A tumbler should be well

balanced (9)
16 Roughly glued into atlas

19 Late watch for sxpert

1211 (7)

Month in Capri (leisure

rounded by lies (7)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday November 9.





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